

**LAW OFFICE OF TIMOTHY L. KLEIER**

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Attorney at Law

July 21, 2011

Keith Olinger, SFD-7-5  
United States Environmental Protection Agency, Region IX  
Superfund Division  
75 Hawthorne Street  
San Francisco, CA 94105

Re: *104(e) Request for Information Related to Omega Chemical Corporation  
Superfund Site; Real Property Located at 10607 Norwalk Boulevard, Santa  
Fe Springs, CA; Response*

Dear Mr. Olinger:

**A. Introduction.**

This Office represents Pyramid Oil Company ("Pyramid"). This letter is in reply to the United States Environmental Protection Agency's ("EPA") above Request for Information to Pyramid, dated June 24, 2011 (the "Matter"). True and correct copies of the following documents are included in a separate packet:

<b>Exhibit</b>	<b>Document</b>
1	EPA Request for Information
2	Map of Jalk Lease
3	DOGGR Aerial Photographs and Well Abandonment Records for Jalk Lease Area
4	1987 Aerial Photo of Jalk Lease Area
5	LA County Assessor's Parcel Map for 8009-025
6	LA County Assessor's Parcel Map for 8009-023
7	1986 Quitclaim Deed for "Industrial Tract"
8	[1970] Plan and Agreement of Reorganization by Exchange
9	1986 Proxy Statement
10	CA Secretary of state Corporations Records Re: Hathaway C1 and Hathaway C2

In our efforts to fully respond to the EPA's inquiry we have diligently reviewed the records of Pyramid and interviewed its employees. As will be explained below there exist only minimal records concerning the above matter, copies of which are included with this letter. There is only one current employee of Pyramid who has any knowledge of the Matter, John Alexander, who began his employment with Pyramid in 1986 as Vice President after the seminal events at issue in the Matter<sup>1</sup>, and is currently President. Mr. Alexander was interviewed in connection with this response.

We have also contacted a title company and the California Division of Oil, Gas, and Geothermal Resources ("DOGGR") to obtain certain public records discussed below.

In the event additional records are located or additional information regarding the Matter are discovered, we will provide a supplement to this Response as to the same.

Further correspondence in regards to this Matter should be sent both to this Office at the address set out on the bottom of the face sheet of this letter, and Mr. Alexander at P. O. Box 832, Bakersfield, CA 93302.

**B. Real Property at Issue.**

**1. The "Jalk Lease".**

The general area in Santa Fe Springs that is the subject of the Matter appears to have been in oil and gas development from the 1920's forward. The original Hathaway Company ("Hathaway C1"), discussed in more detail later, was one of the earlier oil and gas producers in this area.

In the 1930's through 1970, Hathaway C1 owned and operated various oil and gas leases in the Santa Fe Springs area. Among these was the "Jalk Lease", which encompasses the area at issue in this matter. A map of the Jalk Lease is attached as Exhibit 2.

Hathaway C1 also owned the surface rights to a seven acre parcel known as the "Industrial Tract" that was within the area of the Jalk Lease<sup>2</sup>. It appears that members of the Hathaway family (who owned Hathaway C1) owned other real property in the Santa Fe Springs area.

It appears that Hathaway C1 leased the mineral interests of the Industrial Tract as

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<sup>1</sup>Mr. Alexander was also member of the Board of Directors of Pyramid beginning in 1984.

<sup>2</sup>Due to the fact that Well 119, which is located on the Industrial Tract, is listed in the DOGGR records as being a part of the Jalk Lease, it is assumed that the mineral interests for the Industrial Tract belonged to a third party.

well as the other real property within the Jalk Lease pursuant to a written oil and gas lease(s). Pyramid does not have a copy of the Jalk Lease.

In 1970 Pyramid acquired the Industrial Tract and various oil and gas leases including the Jalk Lease from Hathaway C1; and Hathaway C1 was subsequently dissolved or suspended. In 1986 Pyramid conveyed the Industrial Tract and the Jalk Lease (and all other oil and gas leases within the Santa Fe Springs area) to a new corporation, also called "Hathaway Company" ("Hathaway C2"). After such conveyance, Pyramid had no further ownership or involvement with the Industrial Tract or the Jalk Lease (and all other oil and gas leases within the Santa Fe Springs area).

According to DOGGR records, oil and gas production appears to have stopped on the Jalk Lease about 13 years after Pyramid conveyed its leasehold interests in the Jalk Lease to Hathaway C2; and the respective oil and gas wells on the Jalk Lease were abandoned at that time by the then current operator(s) of the Jalk Lease in conformance with governmental requirements. (Ex. 3, DOGGR Aerial Photographs and Well Abandonment Records.)

It appears from a comparison of an aerial photograph from about 1987 of the Jalk Lease area (Ex. 4) and current aerial photographs of the same area (Ex. 3) that industrial buildings existed on the Jalk Lease from 1987 to the present. It appears from the same comparison that substantially all the current buildings on the Industrial Tract were present in 1987; while a substantial number of the buildings on the remainder of the Jalk Lease were built after 1987.

## **2. Real Property Identified by EPA.**

As will be discussed below, the EPA has focused on the South ½ of the South West 1/4 of Section 6, T3S R11W. This area appears on Los Angeles County Assessor's Parcel Map ("AP Map") 8009-025. (Ex. 5.) Four parcels on that map have been identified by the EPA as being the subject of the Matter, which are identified on the Map as Parcels 1, 2, 3, and 4; and further described below.

The Request for Information at Enclosure B, Question 1, defines the term "[Subject] Property" to mean the "facility formerly located at 10607 Norwalk Boulevard, Santa Fe Springs, California. Question 1 states the Assessor's Parcel Number ("APN") for Parcel 1 is 8009-025-08. We were unable to locate this Street Address through Google Maps. We were unable to locate this APN on AP Map 8009-025 (Ex. 5).

The "10607" Norwalk Boulevard address provided in the Request for Information may be a typographical error; such that the correct address intended may be "10707" Norwalk Boulevard where Pyramid had its Office from 1970 through 1987 ("Parcel 1"). This 10707 Norwalk Boulevard address and Pyramid's former office building no longer exist. The current APN for Parcel 1 appears to be 8009-025-042. (Ex. 5, AP Map 8009-

025.)<sup>3</sup>

Question 1 then goes on to state that the applicable Request also includes APNs 8009-025-067 (10623 Fulton Wells Ave.), 8009-025-069 (10628 Fulton Wells Ave.), and 8009-025-070 (10629 Fulton Wells Ave.); referred to in this letter as, respectively, "Parcels 2, 3, and 4". We were able to locate all three of these Parcels 2-4 by the APNs on AP Map 8009-025 (Ex. 5), and were able to verify the Street Addresses for Parcels 2 and 3. Parcel 4 (APN 8009-025-070) appears to have a street address on Norwalk Boulevard rather than Fulton Wells Avenue.

Although Pyramid leased its office located at Parcel 1 and operated the Jalk Lease, which included Parcels 1-4 (all between 1970 - 1986); Pyramid did not own any of this real property.

There are no records or other information in Pyramid's possession, custody, or control and Pyramid has no knowledge of any other persons having any such records or information indicating the identity of the owner(s) of the surface rights or mineral rights of Parcels 1-4 at any time through the present.

### **3. Real Property Owned by Pyramid.**

The only real property in the Santa Fe Springs area that we are aware of that was owned by Pyramid is the Industrial Tract. The Industrial Tract is located in the North ½ of the South West 1/4 of Section 6, T3S R11W; and appears on AP Map 8009-023 as parcel no. 27 (Ex. 6, AP Map 8009-023) such that the APN is 8009-023-027.

The Industrial Tract is legally described in the 1986 Quitclaim Deed referenced in the Request for Information (Ex. 7) as:

That certain parcel of land described in the Los Angeles County Assessors Property Tax Records as per Map Book # 8009, Page # 023, Parcel # 027, Tract # 05354, Los Angeles County, California.

As noted above, Pyramid appears to have owned only the surface of the Industrial Tract and not the minerals, and was the lessee of the mineral rights from 1970 through 1986. (See fn. 2.)

### **4. Use of Jalk Lease.**

As noted above, from about the 1930s through 1970 it appears Hathaway C1 leased and operated the mineral interests underlying the Industrial Tract as well as the mineral interests underlying the other real property within the Jalk Lease pursuant to a written oil

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<sup>3</sup>Pyramid moved its Office from Santa Fe Springs to Bakersfield, California shortly after the 1986 Reorganization was completed in 1986.

and gas lease. In 1970 Pyramid acquired Hathaway C1's interests in the Industrial Tract and the Jalk Lease from Hathaway C1; and Hathaway C1 was subsequently dissolved or suspended.

Between the years 1970 through 1986, Pyramid operated the Jalk Lease for oil and gas production. The attached 1987 Aerial Photograph (Ex. 4) indicates there were few if any buildings located on Parcels 2, 3, and 4 and any such buildings no longer exist. The office building located on Parcel 1 (in which Pyramid leased office space from 1970 to 1987) no longer exists.

In 1986 Pyramid conveyed its interests in the Jalk Lease to Hathaway C2. After such conveyance, Pyramid had no further ownership or involvement with the Jalk Lease.

After 1986, DOGGR records (Ex. 3) indicate Hathaway C2 continued to operate the Jalk Lease for the next 13 years. The Jalk Lease appears to have remained under production until about 1999, when it appears the then current operator(s) of the Jalk Lease began abandoning the oil and gas wells. All of the oil and gas wells in the Jalk Lease appear to have been abandoned by 2002.

Included as Exhibit 3 are DOGGR Aerial Photographs of the Jalk Lease area as it appears today with the sites of the abandoned wells superimposed on the photographs, as well as a spreadsheet cross-indexed to the photographs showing the dates of abandonment of each well and the operator of the well at the time of abandonment.

## **5. Use of Industrial Tract by Pyramid.**

As noted above, it appears clear from Exhibit 4 (1987 Aerial Photograph of Jalk Lease Area) that the majority of the buildings currently standing on the Industrial Tract existed as of 1987. Pyramid does not believe such buildings were constructed by Pyramid or were ever occupied by Pyramid. Instead, Pyramid believes such buildings had been constructed prior to Pyramid's acquisition of the Industrial Tract in 1970, and occupied during the 1970-1986 time frame by third parties.

There are no records or other information in Pyramid's possession, custody, or control and Pyramid has no knowledge of any other persons having any such records or information indicating the identity of the persons or entities who occupied such buildings between 1970 and 1986, or at any time.

## **C. Additional Information Concerning the Various Corporate Entities.**

Pyramid is a publically traded California corporation formed in 1909. Pyramid is an oil and gas producer.

The original Hathaway Company was a privately held California corporation (previously defined as "Hathaway C1"), formed in about 1932 according to the Request

for Information. Hathaway C1 was an oil and gas producer.

In 1970 Pyramid and Hathaway C1 "reorganized" such that all the shareholders of Hathaway C1 transferred all of the stock of Hathaway C1 to Pyramid in exchange for stock in Pyramid (the "1970 Reorganization"). A true and correct copy of the [1970] Plan and Agreement of Reorganization by Exchange is attached as Exhibit 8.

According to the 1986 Proxy Statement, a schism later developed within Pyramid between the former shareholders of Hathaway C2, and the majority of the remaining shareholders of Pyramid. As a result of the schism, the two blocks of shareholders agreed to separate Pyramid into two companies, each company wholly owned and controlled by each respective block of shareholders (the "1986 Reorganization"). (Ex. 9, 1986 Proxy Statement, p. 6.)

To carry out the 1986 Reorganization, Pyramid: (1) formed a wholly owned subsidiary California corporation named "Hathaway Company" (previously defined as "Hathaway C2"); (2) transferred to Hathaway C2 certain assets and liabilities of Pyramid of equal value to the withdrawing shareholders' stock in Pyramid; and then (3) transferred all of the stock of Hathaway C2 to the withdrawing shareholders in exchange for their stock in Pyramid. (*Id.* at pp. 2-3.)

We have researched the limited on line California Secretary of State ("CSS") records for "Hathaway Company" and have found three records, which are attached collectively as Exhibit 10. Such records show that the first "Hathaway Company" (Entity No. C0151196) was formed in 1932, and was later "Merged Out". We believe this is probably Hathaway C1.

Such records also show a second "Hathaway Company" (Entity No. C0631066) formed in 1971, that was later suspended. We have no further information about this entity.

Lastly, such records show a third "Hathaway Company" (Entity No. C1275020) that was formed in 1985, and later dissolved. We believe this corporation is Hathaway C2. The same CSS records show that this corporation was eventually "Dissolved". We do not know when the dissolution occurred and have no further information about this corporation after the 1986 Reorganization.

#### **D. Transfers of Title to the Industrial Tract between Corporate Entities.**

All of Pyramid's corporate books and historical records associated with any and all properties conveyed in the 1986 Reorganization were transferred to Hathaway C2 as part of the 1986 Reorganization; including the records relating to the Industrial Tract going back to the 1970 Reorganization.

As a result of the 1970 Reorganization, title to the Industrial Tract appears to have

Mr. Olinger  
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been transferred from Hathaway C1 to Pyramid based on the information set out in the Request for Information. For the reasons set out above, Pyramid has no records showing when or how title to the Industrial Tract was transferred to it other than the records included with this letter.

As a result of the 1986 Reorganization, title to the Industrial Tract was transferred from Pyramid to Hathaway C2. (Ex. 9, 1986 Proxy Statement.) Pyramid does have a copy of a Quitclaim Deed executed in 1986 transferring title to the Industrial Tract from Pyramid to Hathaway C2, pursuant to the 1986 Reorganization. (Ex. 7.)

**E. Specific Responses to Enclosure B Questions.**

1. Timothy L. Kleier  
Attorney for Pyramid Oil Company  
2020 Eye Street, Suite 201  
Bakersfield, CA 93301  
Tel. 661-323-1677; Facsimile 661-323-1678

2. As set out in Sections B through D above, it appears that in about 1970, Pyramid acquired title to the Industrial Tract later described in the 1986 Quitclaim Deed (Ex. 7) as:

That certain parcel of land described in the Los Angeles County Assessors Property Tax Records as per Map Book # 8009, Page # 023, Parcel # 005, Tract # 05354, Los Angeles County, California.

3. All of Pyramid's corporate books and historical records associated with any and all mineral interest leases and real properties conveyed in the 1986 Reorganization to Hathaway C2, were transferred to Hathaway C2, including the records relating to the Industrial Tract. For this reason, there are no records or other information in Pyramid's possession, custody, or control and Pyramid has no knowledge of any other persons having any such records or information indicating to whom the Industrial Tract was leased during Pyramid's ownership of the Industrial Tract or at any time, or the identities of the persons or entities that occupied the same.

4. Please refer to Sections B through D above, and the Exhibits referenced in the same.

As set out in the referenced Sections and Exhibits, it appears that Hathaway C1 owned the Industrial Tract prior to the transfer of title to Pyramid in 1970. Pursuant to the 1986 Reorganization, title to the Industrial Tract was transferred to Hathaway C2 in 1986. Pyramid has no knowledge, information, or documents concerning the names, addresses, and telephone numbers beyond what is stated in the 1970 Reorganization document (Ex. 8) and the 1986 Proxy Statement (Ex. 9).

5. Please refer to Sections B through D above, and the Exhibits referenced in the same.

As set out in the referenced Sections and Exhibits: (1) in 1970 Pyramid and Hathaway C1 were reorganized pursuant to the 1970 Reorganization such that only Pyramid remained in existence; and (2) in 1986 Pyramid: (a) formed a wholly owned subsidiary California corporation named "Hathaway Company" (previously defined as "Hathaway C2"), (b) transferred to Hathaway C2 certain assets and liabilities of Pyramid of equal value to the withdrawing shareholders' stock in Pyramid, and then (c) transferred all of the stock of Hathaway C2 to the withdrawing shareholders in exchange for their stock in Pyramid. (See Ex. 8, 1970 Reorganization; Ex. 9, 1986 Proxy Statement.)

6. Please refer to Sections B through D above, and the Exhibits referenced in the same.

As set out in the referenced Sections and Exhibits, the apparent discrepancy arises from the fact that Hathaway C1 and Hathaway C2 had the same corporate name "Hathaway Company". As explained in the referenced Sections (illustrated in part by the use of the names "Hathaway C1" and "Hathaway C2") there is no real discrepancy as each Hathaway corporation was a different and distinct legal entity.

7. Please refer to Sections B through D above, and the Exhibits referenced in the same.

Jalk Lease. As set out in the referenced Sections and Exhibits, in about 1970 through 1986 Pyramid operated a pre-existing oil and gas lease (the Jalk Lease) that included Parcels 1-4 and the Industrial Tract. The Jalk Lease was previously operated beginning in about the 1930's by Hathaway C1. Pyramid operated the Jalk Lease between the years 1970 and 1986, after which the Jalk Lease was transferred to Hathaway C2. It appears that after 1986, Hathaway C2 continued to operate the Jalk Lease for the next 13 years. In about 1999, the then current operator(s) of the Jalk Lease began abandoning the oil and gas wells. All of the oil and gas wells appear to have been abandoned by 2002.

Pyramid has no records regarding its operation of the Jalk Lease. It can reasonably be assumed that Pyramid had employees to operate the Jalk Lease that would have included pumper and maintenance positions. Pyramid has no knowledge of past employees who may have worked on the Jalk Lease, or any records regarding its oil and gas operations or production on the Jalk Lease.

Office Building. Between the years 1970 and 1987, Pyramid leased office space at Parcel 1. Pyramid has no records regarding its use of office space at Parcel 1. It is believed that approximately three to six personnel used the office space. The office space was used as administrative headquarters for Pyramid's oil and gas operations.

Industrial Tract. Pyramid does not believe the buildings located on the Industrial Tract between 1970 and 1986 were constructed by Pyramid or were ever occupied by



Pyramid. Instead, Pyramid believes such buildings had been constructed prior to Pyramid's acquisition of the Industrial Tract in 1970, and occupied during the 1970 through 1986 time frame by third parties. There are no records or other information in Pyramid's possession, custody, or control and Pyramid has no knowledge of any other persons having any such records or information indicating the identity of the persons or entities who occupied such buildings between 1970 and 1986, or at any time.

8. Please refer to Sections B through D above, and the Exhibits referenced in the same.

As set out in the referenced Sections and Exhibits, in about 1970 through 1986 Pyramid operated a pre-existing oil and gas lease (the Jalk Lease) that included Parcels 1-4 and the Industrial Tract. The Jalk Lease was previously operated beginning in about the 1930's by Hathaway C1. Pyramid operated the Jalk Lease between the years 1970 and 1986, after which the Jalk Lease was transferred to Hathaway C2. It appears that after 1986, Hathaway C2 continued to operate the Jalk Lease for the next 13 years. In about 1999, the then current operator(s) of the Jalk Lease began abandoning the oil and gas wells. All of the oil and gas wells appear to have been abandoned by 2002.

Please also refer to the answer to Question 3: All of Pyramid's corporate books and historical records associated with any and all mineral interest leases and real properties conveyed in the 1986 Reorganization to Hathaway C2, were transferred to Hathaway C2, including the records relating to the Industrial Tract and the Jalk Lease. For this reason, there are no records or other information in Pyramid's possession, custody, or control and Pyramid has no knowledge of any other persons having any such records or information indicating to whom the Industrial Tract was rented or leased during Pyramid's ownership of the Industrial Tract or at any time.

9. Please refer to Sections B through D above, and the Exhibits referenced in the same.

As previously noted, all of Pyramid's corporate books and historical records associated with any and all mineral interest leases and real properties conveyed in the 1986 Reorganization to Hathaway C2, were transferred to Hathaway C2, including such records relating to the Industrial Tract and the Jalk Lease. For this reason, there are no records or other information in Pyramid's possession, custody, or control and Pyramid has no knowledge of any other persons having any such records or information responsive to this request.

Because of this, Pyramid has no information or documents upon which to base a scaled map of the Jalk Lease, Industrial Tract, or Office Building other than the maps and photos attached as Exhibits 2 (Jalk Lease), 3 (DOGGR Aerial Photographs), 4 (1987 Photo of Jalk Lease Area), 5 (AP Map 8009-025), and 6 (AP Map 8009-023); such that the result would be of no value. For this same reason, Pyramid is unable to provide a physical description of the Jalk Lease, Industrial Tract, or Office Building beyond the documents provided.

10. Pyramid has no knowledge, information, or documents concerning this request.
11. Pyramid has no knowledge, information, or documents concerning this request.
12. Pyramid has no knowledge, information, or documents concerning this request.
13. Pyramid has no knowledge, information, or documents concerning this request.
14. Pyramid has no knowledge, information, or documents concerning this request.
15. Pyramid has no knowledge, information, or documents concerning this request.

**F. Conclusion.**

We hope that the EPA can appreciate the fact that Pyramid has diligently researched the questions asked and has done its best to provide comprehensive answers.

Please feel free to contact me directly by telephone or letter if you have any further questions or would like to discuss the above.

Very truly yours,



Timothy L. Kleier

TLK/mjp  
Attachments

cc: Mr. Alexander

[TLK.Q15.L-Olinger.PYR.wpd]



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY  
REGION IX  
75 Hawthorne Street  
San Francisco, CA 94105

June 24, 2011

John H. Alexander, President/CEO  
Pyramid Oil Company  
2008 21st Street  
Bakersfield, CA 93301

Re: 104 (e) Request for Information Related to Omega Chemical Corporation  
Superfund Site: Real Property Located at 10607 Norwalk Boulevard,  
Santa Fe Springs, CA

Dear Mr. Alexander:

The United States Environmental Protection Agency ("EPA") is spending public funds to investigate and respond to the release or threatened release of hazardous substances into the soil and groundwater at the Omega Chemical Corporation Superfund Site (the "Site"). The Site includes the location a former used solvent and refrigerant recycling, reformulation, and treatment facility ("Omega Chemical") located at 12504 and 12512 Whittier Blvd. in Whittier, California, but the term "Site" (as used here) refers to both the former Omega Chemical property and the areal extent (i.e., plume) of contaminated groundwater emanating from the Omega Chemical property.

In order to facilitate cleanup of hazardous substances at the Site, EPA divided the Site into three operable units ("OUs"): OU-1, OU-2 and OU-3. OU-1 includes the former Omega facility and immediate vicinity. OU-2 is the extent of contamination in groundwater that originated from the former Omega facility and now extends more than four miles downgradient of OU-1. OU-2 includes contamination in groundwater that has commingled with chemicals released at other source areas. OU-3 refers to vapor intrusion from the Omega Site that occurred in several buildings on and near the Omega Chemical property. The investigation and cleanup of OU-1 and OU-3 is being led by OPOG. EPA has been leading the investigation and cleanup of OU-2.

As part of its ongoing investigation of the Site, EPA is seeking to determine the nature and extent of contamination at the Site, to assess the effects of contamination on the environment and public health, and to identify activities and parties that have or may have contributed to contamination at the Site. EPA believes that you may have information which may assist EPA in its investigation of the Site.

Evidence from groundwater investigations to date suggests that operations at various facilities in the area, including Omega Chemical, may have contributed to groundwater contamination through the use of volatile organic compounds ("VOCs"), including, but not limited to, perchloroethylene ("PCE"), trichloroethylene ("TCE"), Freons 11 and 113, and other contaminants. Answers to the questions in Enclosure B will provide us some of the information we need for the Site investigation.

We request that you provide a complete and truthful response to this Information Request and attached questions (Enclosure B) **within thirty (30) calendar days** of your receipt of this letter. Under Section 104(e) of the Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA"), 42 U.S.C. §9604(e), EPA has broad information gathering authority which allows EPA to require persons to furnish information or documents relating to:

- (a) The identification, nature, and quantity of materials which have been or are generated, treated, stored, or disposed of at a vessel or facility or transported to a vessel or facility;
- (b) The nature or extent of a release or threatened release of a hazardous substance or pollutant or contaminant at or from a vessel or facility; and
- (c) Information relating to the ability of a person to pay for or perform a cleanup.

Please note that your compliance with this Information Request is mandatory. Failure to respond fully and truthfully may result in an enforcement action by EPA pursuant to Section 104(e)(5) of CERCLA, 42 U.S.C. §9604(e)(5). This statutory provision authorizes EPA to seek the imposition of penalties of up to \$37,500 per day of noncompliance. Please be further advised that provision of false, fictitious or fraudulent statements or representations may subject you to criminal penalties under 18 U.S.C. §1001. The information you provide may be used by EPA in administrative, civil or criminal proceedings.

Some of the information EPA is requesting may be considered by you to be confidential business information ("CBI"), as described in Title 40 of the Code of Federal Regulations, Subchapter A, Part 2, Subpart B (40 C.F.R., §2.201, *et seq.*). Please be aware that you may not withhold the information upon that basis. If you wish EPA to treat the information confidentially, you must advise EPA of that fact by following the procedures outlined in Enclosure A, including the requirement for supporting your claim for confidentiality.

This request for information is not subject to review by the Office of Management and Budget ("OMB") under the Paperwork Reduction Act because it is not an "information collection request" within the meaning of 44 U.S.C. §§3502(3), 3507, 3512, and 3518(c)(1). See also 5 C.F.R. §§1320.3(c), 1320.4, and 1320.6(a). Furthermore, it is exempt from OMB review under the Paperwork Reduction Act because it is directed to fewer than ten persons. 44 U.S.C. §3502(4), (11); 5 C.F.R. §§1320.4 and 1320.6(a).

Instructions on how to respond to the questions are described in Enclosure A. Please return your written response to this Information Request, signed by a duly authorized official of your company, within **thirty (30) calendar days** of receipt of this letter. Please direct your response to:

Keith Olinger, SFD-7-5  
U.S. Environmental Protection Agency, Region IX  
Superfund Division  
75 Hawthorne Street  
San Francisco, California 94105

Your response should include the appropriate name, address, and telephone number of the person to whom EPA should direct future correspondence in regard to this matter on behalf of your company.

If you have questions regarding this Information Request, please contact Steve Berninger, Assistant Regional Counsel, at (415) 972-3909 or Keith Olinger, Enforcement Officer, at (415) 972-3125. If you have questions about the history of the Site, the nature of the environmental conditions at the Site, or the status of cleanup activities, please contact Lynda Deschambault at (415) 947-4183.

We appreciate and look forward to your prompt response to this Information Request.

Sincerely,



Kathi Moore, Manager  
Case Development & Cost Recovery Section

Enclosures (2)

cc: Steve Berninger, EPA  
Lynda Deschambault, EPA  
Keith Olinger, EPA

## ENCLOSURE A: INSTRUCTIONS AND DEFINITIONS

### Instructions:

1. Answer Each Question Completely. A separate response must be made to each of the questions set forth in this Information Request. For each question contained in this letter, if information responsive to this Information Request is not in your possession, custody, or control, please identify the person(s) from whom such information may be obtained.
2. Number Each Answer. When answering the questions in Enclosure B, please precede each answer with the corresponding number of the question and subpart to which it responds.
3. Number Each Document. For each document produced in response to this Information Request, indicate on the document, or in some other reasonable manner, the number of the question to which it corresponds.
4. Provide the Best Information Available. Provide responses to the best of Respondent's ability, even if the information sought was never put down in writing or if the written documents are no longer available. You should seek out responsive information from current and former employees/agents. Submission of cursory responses when other responsive information is available to the Respondent will be considered non-compliance with this Information Request.
5. Identify Sources of Answer. For each question, identify (see Definitions) all the persons and documents that you relied on in producing your answer.
6. Continuing Obligation to Provide/Correct Information. If additional information or documents responsive to this Request become known or available to you after you respond to this Request, EPA hereby requests pursuant to CERCLA Section 104(e) that you supplement your response to EPA.
7. Scope of Request. The scope of this request includes all information and documents independently developed or obtained by research on the part of your company, its attorneys, consultants or any of their agents, consultants or employees.
8. Confidential Information. The information requested herein must be provided even though you may contend that it includes confidential information or trade secrets. You may assert a confidentiality claim covering part or all of the information requested, pursuant to Sections 104(e)(7)(E) and (F) of CERCLA, 42 U.S.C. §§9604(e)(7)(E) and (F), and Section 3007(b) of RCRA, 42 U.S.C. §6927(b), and 40 C.F.R. §2.203(b). If you make a claim of confidentiality for any of the information you submit to EPA, you must prove that claim. For each document or response you claim confidential, you must separately address the following points:

- a. clearly identify the portions of the information alleged to be entitled to confidential treatment;
  - b. the period of time for which confidential treatment is desired (e.g., until a certain date, until the occurrence of a specific event, or permanently);
  - c. measures taken by you to guard against the undesired disclosure of the information to others;
  - d. the extent to which the information has been disclosed to others, and the precautions taken in connection therewith;
  - e. pertinent confidentiality determinations, if any, by EPA or other federal agencies, and a copy of any such determinations or reference to them, if available; and
  - f. whether you assert that disclosure of the information would likely result in substantial harmful effects on your business' competitive position, and if so, what those harmful effects would be, why they should be viewed as substantial, and an explanation of the causal relationship between disclosure and such harmful effects.
  - g. To make a confidentiality claim, please stamp, or type, "confidential" on all confidential responses and any related confidential documents. Confidential portions of otherwise nonconfidential documents should be clearly identified. You should indicate a date, if any, after which the information need no longer be treated as confidential. Please submit your response so that all nonconfidential information, including any redacted versions of documents are in one envelope and all materials for which you desire confidential treatment are in another envelope.
  - h. All confidentiality claims are subject to EPA verification. It is important that you satisfactorily show that you have taken reasonable measures to protect the confidentiality of the information and that you intend to continue to do so and that it is not and has not been obtainable by legitimate means without your consent. Information covered by such claim will be disclosed by EPA only to the extent permitted by CERCLA Section 104(e). If no such claim accompanies the information when it is received by EPA, then it may be made available to the public by EPA without further notice to you.
9. Disclosure to EPA's Authorized Representatives. Information which you submit in response to this Information Request may be disclosed by EPA to authorized representatives of the United States, pursuant to 40 C.F.R. 2.310(h), even if you assert that all or part of it is confidential business information. The authorized representatives of EPA to which EPA may disclose information contained in your response are as follows:

Department of Toxic Substances Control/California  
Environmental Protection Agency

Enclosure A

Toeroek Associates, Inc.  
EPA Contract Number EP-BPA-11-W-001

Science Applications International Corporation  
EPA Contract Number EP-BPA-11-W-001

CH2M Hill, Inc.  
EPA RAC Contract Number EP-S9-08-04

GRB Environmental Services Inc.  
Contract Number EP-R9-06-03

ITSI, Inc.  
EPA RAC Contract Number EP-S9-08-03

Techlaw  
EPA ROC Contract Number EP-W-07-066

Techlaw  
EPA Contract Number GS-10F-0168J

Any subsequent additions or changes in EPA contractors who may have access to your response to this Information Request will be published in the Federal Register.

This information may be made available to these authorized representatives of EPA for any of the following reasons: to assist with document handling, inventory, and indexing; or to assist with document review and analysis for verification of completeness; or to provide expert technical review of the contents of the response. Pursuant to 40 C.F.R. §2.310(h), you may submit comments on EPA's disclosure of any confidential information contained in your response by EPA to its authorized representatives along with the response itself, within the thirty (30) calendar day period in which the response is due.

10. Objections to Questions. If you have objections to some or all of the questions contained in the Information Request letter, you are still required to respond to each of the questions.

Definitions:

1. The term "you" or "Respondent" should be interpreted to include the addressee of this Information Request, the addressee's officers, managers, employees, contractors, trustees, successors, assigns and agents.
2. The term "person" shall include any individual, firm, unincorporated association, partnership, corporation, trust, joint venture, or other entity.
3. The term "waste" or "wastes" shall mean and include trash, garbage, refuse, by-products, solid waste, hazardous waste, hazardous substances, and pollutants or contaminants, whether solid, liquid, or sludge.

Enclosure A



4. The term "hazardous waste" shall have the same definition as that contained in Section 1004(5) of RCRA.
5. The term "hazardous substance" shall have the same definition as that contained in Section 101(14) of CERCLA and includes any mixtures of such hazardous substances with any other substances, including mixtures of hazardous substances with petroleum products or other nonhazardous substances.
6. The term "release" has the same definition as that contained in Section 101(22) of CERCLA, and includes any spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping, or disposing into the environment, including the abandonment or discharging of barrels, containers and other closed receptacles containing any hazardous substance or pollutant or contaminant.
7. The term "pollutant or contaminant" shall have the same definition as that contained in Section 101(33) of CERCLA and include any mixtures of such pollutants and contaminants with any other substance including petroleum products.
8. The term "materials" shall mean all substances that have been generated, treated, stored, or disposed of or otherwise handled at or transported to the Site including, but not limited to, all hazardous substances, pollutants, or contaminants.
9. The term "documents" includes any written, recorded, computer generated, or visually or aurally reproduced material of any kind in any medium in your possession, custody, or control or known by you to exist, including originals, all prior drafts, and all non-identical copies.

## ENCLOSURE B: QUESTIONS (INFORMATION REQUEST)

1. State the full legal name, address, telephone number, position(s) held by, and tenure of, the individual(s) answering any of these questions on behalf of Pyramid Oil Company, and/or any of its related, predecessor or successor companies (collectively hereinafter, "Pyramid Oil Company") concerning the facility formerly located at 10607 Norwalk Boulevard, Santa Fe Springs, California (the "Property"). It should be noted that this Request is not limited solely to 10607 Norwalk Boulevard, Santa Fe Springs, California. Rather, this Request shall include any and all parcels and street addresses in the area of 10607 Norwalk Boulevard (designated with Assessor's Parcel Numbers 8009-025-008, 8009-025-067, 8009-025-069, and 8009-025-070) where your operations occurred. EPA research indicates that Hathaway Company operated as predecessor to Pyramid Oil Company at a location or locations which include the properties with the current street addresses 10623 Fulton Wells Avenue, Santa Fe Springs, California, 10628 Fulton Wells Avenue, Santa Fe Springs, California, and 10629 Norwalk, Santa Fe Springs, California.
2. State whether Pyramid Oil Company is a past owner of the Property or any part thereof. If so, provide a copy of the deed or other recorded instrument of conveyance evidencing ownership of the Property or any part thereof. As part of your response, identify the specific dates you owned the Property or any part thereof.
3. If Pyramid Oil Company is a past owner of the Property or any part thereof, and if at any time during its ownership it rented or leased the Property or any part thereof to any individuals or entities, provide the name of such individuals or entities, the respective dates Pyramid Oil Company rented or leased the Property or any part thereof to each individual or entity and a copy of the lease(s), rental agreement(s), and/or any other document(s) governing each leasehold relationship.
4. If Pyramid Oil Company is a past owner of the Property or any part thereof, identify all individuals or entities who owned the Property or any part thereof prior to or subsequent to any ownership by Pyramid Oil Company, and provide the name, address, and phone number of those individuals or entities.
5. EPA research indicates a Corporation Quitclaim Deed was recorded on March 26, 2001 to release all rights held by Hathaway Company, a California corporation (incorporated on May 8, 1985) as successor-in-interest to Pyramid Oil Company, in the facility property leases recorded on June 23, 1920, December 15, 1939, and June 30, 1941 to Mobil Foundation Inc., a New York not-for-profit corporation. Describe the corporate affiliation between Hathaway Corporation and Pyramid Oil Company. Provide copies of all documentation evidencing such affiliation.
6. EPA research indicates that on March 30, 2000, Hathaway Company executed a Quitclaim Deed to release all rights it held as "successor-in-interest to Pyramid Oil Company" in the facility property leases dated 1920, 1939, and 1941. The Quitclaim Deed notes that the Hathaway Company entity involved in the transaction was incorporated on May 8, 1985. Corporate research shows that this entity was dissolved on October 12, 2004. However, corporate records show that the original Hathaway

Company entity affiliated with Pyramid Oil Company incorporated in 1932 and was merged into Pyramid Oil Company, effectively making Pyramid Oil Company the successor-in-interest to Hathaway Company instead of vice versa as indicated in the Quitclaim Deed. Explain this discrepancy and provide documentation to support your explanation.

7. Identify and explain all of your business operations at the Property or any part thereof, including such information as the number of employees, the size of the facility, dates of operation, product(s) manufactured, and a description of the daily activities. Include a historical perspective of all changes in operations over time. As part of your answer, identify the specific street address and/or Assessor's Parcel Number ("APN") of each location where you conducted operations, and include a historical perspective of all changes to street addresses over the course of your operations at or near the Property or any part thereof.
8. Identify any prior, concurrent, and subsequent operators at the Property or any part thereof. Provide the dates each business operated and describe the types of operations that occurred at the Property or any part thereof. Provide copies of all environmental documents and facility information in your possession regarding prior, concurrent, and subsequent operators at the Property or any part thereof.
9. At the time of Pyramid Oil Company's operations and ownership at the Property or any part thereof, provide a scaled map which includes the locations of significant buildings and features. Indicate the locations of any maintenance shops, hazardous material or waste storage area(s), waste treatment area(s), sumps, pits, ponds, machine shops, degreasers, liquid waste tanks, clarifiers, chemical storage tanks, and fuel tanks. Provide a physical description of the Property and identify the following:
  - a. Surface structures (e.g., buildings, tanks, containment, and/or storage areas, etc.);
  - b. Subsurface structures (e.g., underground tanks, sumps, pits, clarifiers, etc.);
  - c. Groundwater and dry wells, including drilling logs, date(s) of construction or completion, details of construction, uses of the well(s), date(s) the well(s) was/were abandoned, depth to groundwater, depth of well(s), and depth to and of screened interval(s);
  - d. Past and present stormwater drainage system and sanitary sewer system, including septic tank(s) and subsurface disposal field(s);
  - e. Any and all additions, demolitions, or changes of any kind to physical structures on, under or about the Property or to the property itself (e.g., excavation work), and state the date(s) on which such changes occurred; and
  - f. Indicate the location of all waste storage or waste accumulation areas, waste disposal areas, dumps, leach fields, burn pits, and any other disposal locations.

Enclosure B

10. If any hazardous substances/materials/wastes and/or substances containing Trichloroethylene (TCE), Tetrachloroethylene (PCE), Chromium, 1,1,1-Trichloroethane (TCA), 1,2-Dichloroethene, 1,1-Dichloroethene, 1,1-Dichloroethane, 1,4-Dioxane, Vinyl Chloride, Chloroform, or Perchlorate were utilized in any of Pyramid Oil Company's operations at the Property or any part thereof during the entire period since 1920, provide a complete description of those operations (current or discontinued) and provide the following:
- a. The trade or brand name, chemical composition, and quantity used for each chemical or hazardous substance, and the relevant Material Safety Data Sheet for each product, and its period of use;
  - b. A description of the process in which the hazardous substance is or was stored, used, manufactured, generated, or produced (including any current or discontinued processes);
  - c. The location(s) where each chemical or hazardous substance is or was used, stored, and disposed of. In addition, identify the kinds of wastes (e.g., hazardous materials, spent solutions, tank bottoms, scrap metal, solvents, waste water), quantities, and methods of disposal for each chemical or hazardous substance;
  - d. A description of the waste streams from all processes in which any such hazardous substance is or was used, manufactured, generated, or produced;
  - e. Copies of all permits for storage, treatment, or disposal of any waste stream from any process in which any hazardous substance is or was used, manufactured, generated, or produced; and
  - f. Copies of all manifests governing hazardous substances generated by your operations at the Property.
11. Provide copies of all hazardous material business plans and chemical inventory forms (originals and updates) submitted to city, county, and/or state agencies and all manifests governing hazardous substances generated by your operations at the Property or any part thereof.
12. Provide copies of any and all documents evidencing your environmental practices at the Property or any part thereof, including, but not limited to, documents setting forth your waste management practices and procedures and summarizing spills and/or leaks of any hazardous materials or waste from, but not limited to, equipment, tanks, or containment. As part of your response, include any and all letters of enforcement from all regulatory agencies concerning operations or events at the Property or any part thereof, and inspection notes, citizen complaints, and formal notices of violation.
13. Provide copies of all technical or analytical environmental information, including, but not limited to, any known releases of hazardous substances to soil or water and any data and documents related to water sampling (ground and surface), soil sampling, or soil gas

Enclosure B

sampling on or at the Property or any part thereof. As part of your response, include any and all letters of enforcement from any regulatory agency concerning operations or events at the Property or any part thereof and inspection notes, citizen complaints, and formal notices of violation.

14. Provide copies of all information and documentation related to approval of any remediation or cleanup activities conducted during your ownership or operations at the Property or any part thereof.
15. Provide a list of employees who had knowledge of the use and disposal of hazardous substances at the Property or any part thereof during the entire time period that Pyramid Oil Company, or any of its predecessors, successors, subsidiaries, affiliates, contractors, trustees, assigns or agents, was associated with the Property or any part thereof. For each employee listed, provide the following information:
  - a. The employee's full name;
  - b. The employee's current or last known address(es) and telephone number(s), including the last known date on which you believe each address and telephone number was current;
  - c. Identify the entire time period that the employee worked at the facility; and
  - d. The position(s) the employee held with each business entity during his or her entire period of employment at the facility and the year or years that the employee held each listed position.

Enclosure B





# DOGGR Online Mapping System (DOMS)



**Disclaimer:** The well information and data represented on this site varies in accuracy, scale, origin and completeness and may be changed at any time without notice. While the California Department of Conservation, Division of Oil, Gas and Geothermal Resources (DOC) makes every effort to provide accurate information, DOC makes no warranties as to the suitability of this product for any particular purpose. Any use of this information is at the user's own risk.

For further information or suggestions regarding the data on this site, please contact the Division of Oil, Gas, and Geothermal Resources, Technical Services Unit at 801 K St, MS 20-20, Sacramento, CA, 95814 or email [doggrwebmaster@conservation.ca.gov](mailto:doggrwebmaster@conservation.ca.gov).

California Department of Conservation, Division of Oil, Gas and Geothermal Resources.

Printed on: Jul 15 - 1:43:57 PM

URL - <http://maps.conservation.ca.gov/doms/>





# DOGGR Online Mapping System (DOMS)



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California Department of Conservation, Division of Oil, Gas and Geothermal Resources.

Printed on: Jul 13 - 3:06:52 PM

URL - <http://maps.conservation.ca.gov/doms/>





API	Operator Name	Lease Name	Well #	Well Type, Status	Lat, Long
03715 462	Hathaway Company	Hathaway	4	OG Plugged	33.938656 -118.080114
03715 463	Greene-Howard Petro. Corp.	Hathaway	5	OG Plugged	33.938045 -118.080351
03715 461	Hathaway Company	Hathaway	3	OG Plugged	33.938528 -118.078592
03715 466	Hathaway Company	Hathaway	8	OG Plugged	33.937816 -118.078398
03715 464	Hathaway Company	Hathaway	6	OG Plugged	33.938785 -118.077169
03715 488	Hathaway Company	Jalk	113	OG Plugged	33.93792 -118.075283
03715 460	Hathaway Company	Hathaway	2	OG Plugged	33.937649 -118.077517
03715 465	Hathaway Company	Hathaway	7	WD Plugged	33.938083 -118.0772
03715 459	Hathaway Company	Hathaway	1	OG Plugged	33.938525 -118.077543
03715 975	Mobil Oil Corporation	Jalk	2	OG Plugged	33.937711 -118.076457
03715 487	Hathaway Company	Jalk	112	OG Plugged	33.937914 -118.076562
03715 976	Mobil Oil Corporation	Jalk	3	OG Plugged	33.937638 -118.075643
03715 978	Mobil Oil Corporation	Jalk	114	OG Plugged	33.937945 -118.074187
03715 977	Mobil Oil Corporation	Jalk	4	OG Plugged	33.937646 -118.074382
03715 974	Mobil Oil Corporation	Jalk	1	OG Plugged	33.937339 -118.073115
03715 486	Hathaway Company	Jalk	111	OG Plugged	33.937701 -118.073187

API	Operator Name	Lease Name	Well #	Well Type, Status	Lat, Long
03715 490	Hathaway Company	Jalk	117	OG Plugged	33.937245 -118.07597
03715 489	Hathaway Company	Jalk	116	OG Plugged	33.936735 -118.074977
03715 494	Hathaway Company	Jalk	121	OG Plugged	33.935973 -118.076163
03715 493	Hathaway Company	Jalk	120	OG Plugged	33.935729 -118.075153
03715 485	Hathaway Company	Jalk	10	OG Plugged	33.936466 -118.073781
03715 491	Hathaway Company	Jalk	118	OG Plugged	33.936595 -118.073107
03715 484	Pyramid Oil Company	Jalk	9	OG Plugged	33.935756 -118.073134
03715 492	Hathaway Company	Jalk	119	OG Plugged	33.934984 -118.074112



NORTH ↑  
1987 Ariel Photo

10623 Fulton Wells Way →

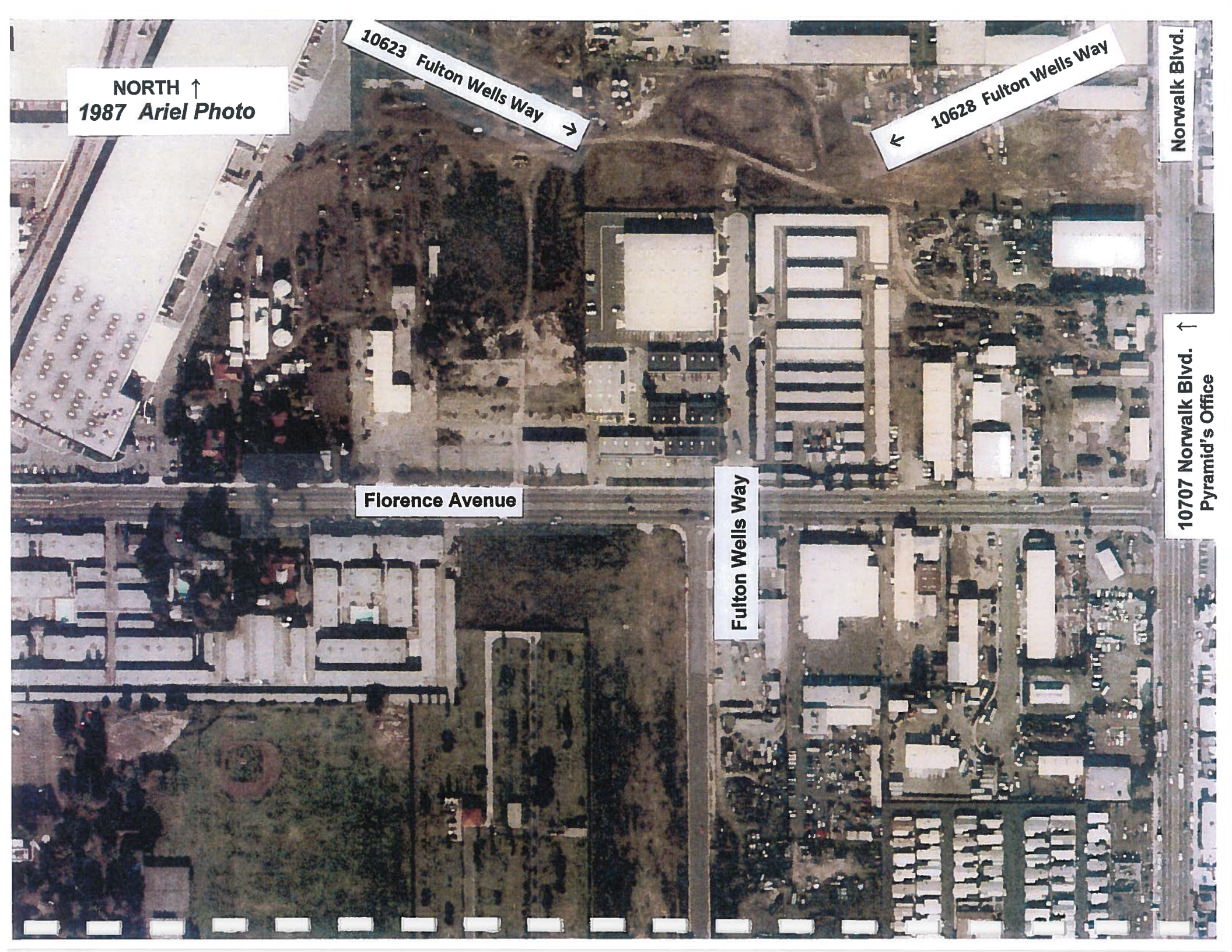
← 10628 Fulton Wells Way

Norwalk Blvd.

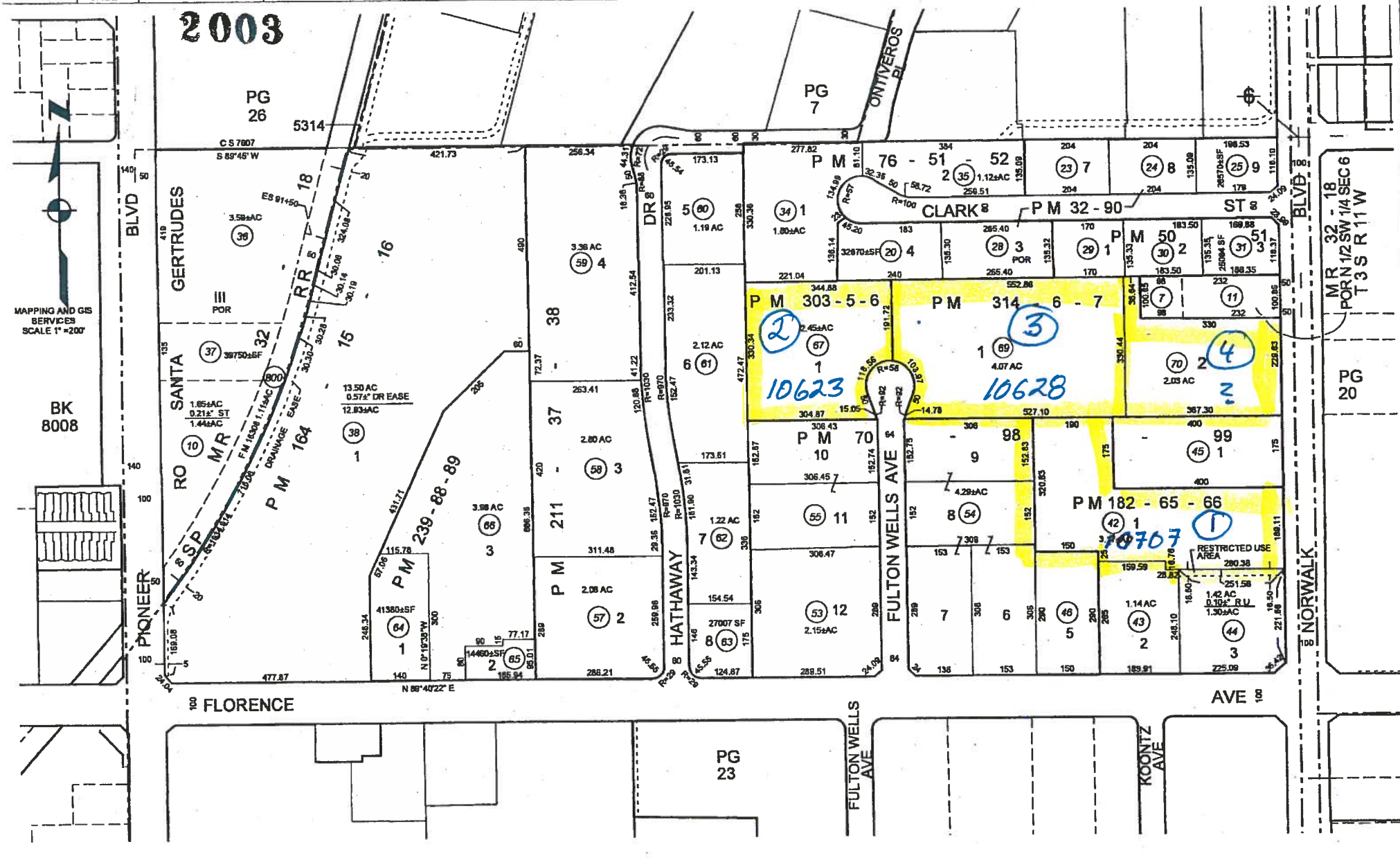
Florence Avenue

Fulton Wells Way

↑ 10707 Norwalk Blvd.  
Pyramid's Office







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ALL 900 SERIES PARCELS ON THIS PAGE ARE  
ASSESSED TO COMMUNITY DEVELOPMENT  
COMMISSION OF THE CITY OF SANTA FE  
SPRINGS UNLESS OTHERWISE NOTED

RECORDING REQUESTED BY  
AND WHEN RECORDED MAIL TO:  
HATHAWAY COMPANY  
P. O. BOX 3266  
SANTA FE SPRINGS, CA 90670

MAIL TAX STATEMENTS TO:  
HATHAWAY COMPANY  
P. O. BOX 3266  
SANTA FE SPRINGS, CA 90670

QUITCLAIM DEED

THIS QUITCLAIM DEED dated as of 7:00 A.M. local time on the 30th day of November, 1986, from PYRAMID OIL COMPANY, a California corporation, 10707 Norwalk Blvd., Santa Fe Springs, California, ("Transferor") to HATHAWAY COMPANY, a California corporation, 10707 Norwalk Blvd., Santa Fe Springs, California ("Transferee")

WITNESSETH, that Transferor for and in consideration of the sum of Ten Dollars (\$10.00) in hand paid by Transferee, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, does hereby transfer, remiss, release, sell, convey and quitclaim unto Transferee its successors and assigns, forever, all the right, title and interest in and to the described in EXHIBIT "A" (herein called the "Real Property"), together with all rights incident thereto.

THIS QUITCLAIM DEED is made without representation or warranty of any kind, express or implied and is subject to all interests of any kind in the Real Property held by any person or entity whether or not of record. WITHOUT LIMITING THE GENERALITY OF THE IMMEDIATELY PRECEDING SENTENCE, GRANTOR EXPRESSLY DISCLAIMS AND NEGATES AS TO PERSONAL PROPERTY AND FIXTURES:

- (1) ANY IMPLIED OR EXPRESSED WARRANTY OF MERCHANTABILITY.
- (2) ANY IMPLIED OR EXPRESSED WARRANTY OF FITNESS FOR A PARTICULAR PURPOSE.
- (3) ANY IMPLIED OR EXPRESSED WARRANTY OF CONFORMITY TO MODELS OR SAMPLES OF MATERIALS.

BY its acceptance hereof, Transferee hereby assumes and agrees to indemnify and hold Transferor harmless from any and all liability and obligations arising under or in connection with said Real Property.

IN WITNESS WHEREOF, the Grantor has hereunto set its hand and seal the day and year first above written.

PYRAMID OIL COMPANY

By J. Ben Hathaway  
J. Ben Hathaway  
President

Attest:

By Raymond R. Smith  
Raymond R. Smith Title  
Corporate Secretary



### Long Beach Property

## Rissman Property

## Shell Station

## Mobil Gas Station

## Santa Fe Springs Industrial Tract

That certain parcel of land described in the Los Angeles County Assessors Property Tax Records as per Map Book # 8009, Page # 023, Parcel # 027, Tract # 05354, Los Angeles County, California.

[illegible]

(CALIFORNIA FORM)

On this 30th day of November, in the year 1986,  
before me, W. Jean Diendorf, personally ap-  
peared J. Ben Hathaway, personally known to me  
or proved to me on the basis of satisfactory evidence to be  
the person who executed the within instrument as a  
President of Pyramid Oil Company,  
a Californiacorporation, or on behalf of such corporation  
and acknowledged to me that such corporation executed the  
same.

W. Jean Diendorf

W. Jean Diendorf Notary Public

Residence: Santa Fe Springs

Address: 10707 Norwalk Blvd.

Santa Fe Springs, CA 90670



(SEAL)

My Commission Expires:

January 18, 1989



PLAN AND AGREEMENT OF REORGANIZATION

by exchange by

PYRAMID OIL COMPANY

of its voting stock for stock of

HATHAWAY COMPANY

in acquisition of all of its shares

PYRAMID OIL COMPANY, herein sometimes called "PYRAMID", and J. ELWOOD HATHAWAY, RICHARD F. HATHAWAY, and JULIAN I. HATHAWAY, herein sometimes collectively called Shareholders, and individually called Shareholder, agree as follows:

ARTICLE 1. PLAN OF REORGANIZATION

Plan Adopted

Section 1.01. A plan of reorganization of PYRAMID OIL COMPANY and HATHAWAY COMPANY, herein sometimes called "HATHAWAY", pursuant to the provisions of Section 368(a)(1)(B) of the Internal Revenue Code of 1954, is adopted as follows:

(a) Each Shareholder will transfer to PYRAMID the number of shares of capital stock of HATHAWAY listed after his name in column one of "Exhibit A", which together will constitute all of the issued and outstanding shares of stock of HATHAWAY.

(b) In exchange for the shares of HATHAWAY transferred by Shareholders, PYRAMID will issue to Shareholders one (1) share of PYRAMID common stock for each ONE AND 25/100 DOLLARS (\$1.25) of the net appraised value of HATHAWAY assets, which assets have been independently appraised within the past thirty (30) days. All parties hereto agree that the reasonable net value of said HATHAWAY assets is the sum of FIVE MILLION TWO HUNDRED FIFTY THOUSAND AND 00/100 DOLLARS (\$5,250,000.00) as of the date of the signing of this Agreement. Accordingly, PYRAMID will issue and cause to be delivered to each Shareholder the number of shares of common stock

of PYRAMID listed after the name of each Shareholder in column two of "Exhibit A".

#### Closing Date

Section 1.02. Subject to the conditions precedent, set forth herein, and to the obligations of the parties to consummate the transaction in accordance with the provisions hereof, the plan of reorganization shall be consummated at the Hathaway Company offices at 11901 East Florence Avenue, Santa Fe Springs, California 90670, within thirty (30) days after the receipt of the Permit from the California Department of Corporations authorizing the issuance of the shares of PYRAMID stock contemplated herein, or such other place and date as may be fixed by mutual consent of the parties, not to exceed ninety (90) days after the receipt of said Permit. The date of such consummation is the "closing date" referred to herein.

#### ARTICLE 2. COVENANTS, REPRESENTATIONS, AND WARRANTIES OF PYRAMID OIL COMPANY.

#### Legal Status

Section 2.01. PYRAMID is a corporation duly organized, validly existing, and in good standing under the laws of the State of California, with corporate power to own property and carry on its business as it is now being conducted. Copies of the Articles of Incorporation of PYRAMID, certified by the Secretary of State of California, and heretofore delivered to Shareholders, are complete and accurate as of the date hereof. PYRAMID is in good standing in all jurisdictions in which its principal properties are located.

#### Subsidiaries

Section 2.02. PYRAMID has no subsidiaries, nor any interest in any other corporation, firm, or partnership, except its investment in certain shares as set forth in its Balance Sheet attached hereto and made a part hereof as "Exhibit B".

#### Capitalization

Section 2.03. PYRAMID has an authorized capitalization of

One Million (1,000,000) shares of common stock of the par value of ONE DOLLAR (\$1.00) per share, of which on the date hereof Eight Hundred Seventeen Thousand Eight Hundred Fifty-five (817,855) shares are issued and outstanding, fully paid and non-assessable including Two Thousand Five Hundred Fifty-five (2,555) shares of treasury stock held by PYRAMID. Except for Ninety-eight Thousand (98,000) shares of the authorized but unissued stock, which are reserved for stock options, there are no outstanding options, contracts, calls, commitments, or demands relating to the authorized but unissued stock of PYRAMID.

#### Financial Statements

Section 2.04. (a) PYRAMID has delivered to Shareholders the balance sheet of PYRAMID as of December 31, 1969, the related statements of income and retained earnings of PYRAMID for the five (5) years then ended, all reported on by certified public accountants, the unaudited balance sheet of PYRAMID as of May 1, 1970, prepared by PYRAMID and subject to normal changes resulting from year-end audit. All such financial statements have been prepared in conformity with generally accepted accounting principles applied on a consistent basis, and present fairly the financial position of PYRAMID at December 31, 1969, and May 1, 1970, respectively, and the results of operations for the respective periods then ended, subject, however, to normal changes resulting from year-end audit of the financial statements as of December 31, 1969.

(b) Other than changes in the usual and ordinary conduct of the business since December 31, 1969, there have been, and at the closing date there will be, no changes in such financial condition of PYRAMID.

#### Title to Properties

Section 2.05. All book assets of PYRAMID are in existence, are in its possession, are in good condition and repair, and conform

to all applicable zoning and building laws and ordinances. PYRAMID has good and marketable title to all of its assets and, except for any liens or encumbrances which are shown on its financial statements as of December 31, 1969, or which have arisen in the ordinary course of business since the date of such financial statements and which do not interfere with the conduct of its business in the ordinary course, holds such assets subject to no mortgages, lien or encumbrance.

#### Indebtedness

Section 2.06. Except as set forth in the Balance Sheet of PYRAMID as of December 31, 1969, there is no outstanding indebtedness other than liabilities incurred in the ordinary course of business or in connection with this transaction. PYRAMID is not in default in respect of any terms or conditions of any indebtedness.

#### No Litigation or Proceeding Pending or Threatened

Section 2.07. PYRAMID is not a party to, nor has it been threatened with, any litigation or governmental proceeding which, if decided adversely to it, would have a material adverse effect upon the transaction contemplated hereby, or upon the financial condition, net worth, prospects, or business of PYRAMID, or would create a material liability on the part of PYRAMID.

#### No Restriction Preventing Transaction

Section 2.08. PYRAMID is not subject to any charter, bylaw, mortgage, lien, lease, agreement, judgment, or other restriction of any kind which would prevent consummation of the transaction contemplated by this agreement.

#### Status of Receivables

Section 2.09. None of the accounts receivable or contracts receivable indicated in the financial statements which PYRAMID has delivered to Shareholders is subject to any counterclaim or setoff,

and all such accounts receivable and contracts receivable are good and collectible at the aggregate recorded amount thereof.

No Broker or Finder

Section 2.10. PYRAMID has not retained nor otherwise utilized the services of any broker or finder in connection with the transaction contemplated by this agreement.

Taxes

Section 2.11. (a) PYRAMID has filed all federal income tax returns and, in each state where qualified or incorporated, all state income tax or franchise tax returns which are required to be filed, has paid all taxes as shown on said returns as have become due, and has paid all assessments received to the extent that such assessments have become due.

(b) PYRAMID will indemnify Shareholders for any deficiencies in prior years' taxes determined against PYRAMID.

Status of Shares Being Transferred

Section 2.12. The shares of stock of PYRAMID which are to be issued and delivered to Shareholders pursuant to the terms of this agreement, when so issued and delivered, will be validly authorized and issued, and will be fully paid and nonassessable; no Shareholder of PYRAMID will have any preemptive right of subscription or purchase in respect thereof.

Authority to Execute Agreement

Section 2.13. (a) PYRAMID has the legal power and right to enter into this agreement, and, subject to obtaining from the California Commissioner of Corporations authorization to issue and transfer Four million two hundred thousand (4,200,000) shares of its common stock to Shareholders pursuant to this Plan and Agreement of Reorganization, to perform all of its obligations hereunder.

(b) PYRAMID will use its best efforts to obtain any necessary Permit from the California Commissioner of Corporations with respect

to the transaction contemplated by this agreement, and to comply with all other legal requirements applicable thereto.

#### Disclosure

Section 2.14. At the date of this agreement PYRAMID has, and at the closing date it will have, disclosed all events, conditions, and facts materially affecting the business and prospects of PYRAMID. PYRAMID has not now and will not have, at the closing date, withheld knowledge of any such events, conditions, and facts which it knows, or has reasonable ground to know, may materially affect the business and prospects of PYRAMID. None of the representations and warranties made by PYRAMID herein and contained in any certificate or other instrument furnished or to be furnished to Shareholders pursuant hereto, contains or will contain any untrue statement of a material fact, or omits or will omit to state a material fact necessary in order to make the statements contained herein not misleading.

#### ARTICLE 3. COVENANTS, REPRESENTATIONS, AND WARRANTIES OF SHARE- HOLDERS OF HATHAWAY COMPANY

#### Legal Status of Corporation

Section 3.01. HATHAWAY is a corporation duly organized, validly existing, and in good standing under the laws of the State of California, with corporate power to own property and carry on its business as it is now being conducted. Copies of the Articles of Incorporation of HATHAWAY, certified by the Secretary of State of California, and heretofore delivered to PYRAMID, are complete and accurate as of the date hereof. HATHAWAY is in good standing in all jurisdictions in which its principal properties are located.

#### Subsidiaries

Section 3.02. HATHAWAY has no subsidiaries nor any interest in any other corporation, firm, or partnership, except as shown in its balance sheet as of December 31, 1969, attached hereto and

made a part hereof as "Exhibit C".

#### Capitalization

Section 3.03. HATHAWAY has an authorized capitalization of Fifteen Hundred (1500) shares of nonpar capital stock, of which on the date hereof Fifteen Hundred (1500) shares are issued and outstanding, fully paid, and nonassessable. There are no outstanding options, contracts, calls, commitments or demands relating to the authorized but unissued stock of HATHAWAY.

#### Financial Statements

Section 3.04. (a) Shareholders have delivered to PYRAMID the balance sheet of HATHAWAY as of December 31, 1969, the related statements of income and retained earnings for the five (5) years then ended, all reported on by certified public accountants, the unaudited balance sheet of HATHAWAY as of May 1, 1970, and the related statements of income and retained earnings for the period then ended, prepared by HATHAWAY, and subject to normal changes resulting from year-end audit. All such financial statements have been prepared in conformity with generally accepted accounting principles applied on a consistent basis and present fairly the financial position of HATHAWAY at December 31, 1969 and May 1, 1970, respectively, and the results of operations for the respective periods then ended, subject, however, to normal changes resulting from year-end audit of the financial statements as of December 31, 1969..

(b) Other than changes in the usual and ordinary conduct of the business since December 31, 1969, there have been, and at the closing date there will be, no changes in such financial conditions of HATHAWAY. None of these changes is, and at the closing date none will be, materially adverse.

(c) Subject to such changes as may have occurred in the ordinary and usual course of business, the assets of HATHAWAY at the closing date will be substantially those owned by it and shown on its financial statements as of December 31, 1969.

(d) Since the date of such financial statements, HATHAWAY has not increased, and prior to the closing date, will not increase its long-term debt.

#### Properties

Section 3.05. Shareholders have delivered to PYRAMID a schedule of assets as of December 31, 1969, listing the real property, leased equipment, and other property and equipment owned or leased by HATHAWAY. HATHAWAY is not in default in any respect under the terms of any lease, deed of trust, contract, or agreement to which it is a party. Shareholders do not have knowledge of any information which would materially affect any of the assets listed in the schedule of assets.

#### Indebtedness

Section 3.06. Except as set forth in the balance sheet of HATHAWAY as of December 31, 1969, there is no outstanding indebtedness other than liabilities incurred in the ordinary course of business or in connection with this transaction. HATHAWAY is not in default in respect of any terms or conditions of any indebtedness.

No Litigation or Proceeding Pending

or Threatened

Section 3.07. HATHAWAY is not a party to, nor has it been threatened with, any litigation or governmental proceeding or tax liability, which, if decided adversely to it, would have a material adverse effect upon the transaction contemplated hereby, or upon



the financial condition, net worth, prospects, or business of HATHAWAY, or would create a material liability on its part.

No Restriction Preventing Transaction

Section 3.08. HATHAWAY is not subject to any charter, bylaw, deed of trust, lien, lease, agreement, judgment, or any other restriction of any kind which would prevent consummation of the transaction contemplated by this agreement.

Status of Receivables

Section 3.09. Except to the extent that an allowance for uncollectible accounts has been established on its books, all accounts receivable and notes receivable of HATHAWAY are current and collectible.

Liability for Finder's Fee

Section 3.10. Shareholders have retained the services of MR. H. L. ALEXANDER as finder in connection with the transaction contemplated by this agreement. Except for said MR. ALEXANDER, Shareholders have not retained or otherwise utilized the services of any broker or finder. Shareholders will pay any finder's fee due and will indemnify PYRAMID for any loss or expense, including attorney's fees, which it may incur as a result of any claim for a finder's fee or broker's commission asserted against it by anyone.

Taxes

Section 3.11. (a) HATHAWAY has filed all federal income tax returns and, in each state where qualified or incorporated, all state income tax and franchise tax returns which are required to be filed, has paid all taxes as shown on said returns as have become due, and has paid all assessments received to the extent that such assessments have become due.

(b) Shareholders will indemnify PYRAMID for any deficiencies

in prior years' taxes determined against HATHAWAY.

Status of Shares Being Transferred

Section 3.12. Shareholders own all of the issued and outstanding shares of the capital stock of HATHAWAY. Shareholders have full power to convey good and marketable title to such shares, free of any liens, charges, or encumbrances of any nature.

Shares Being Acquired For Investment

Section 3.13. Each Shareholder is acquiring the shares of common stock of PYRAMID for investment and without any present intention to sell, distribute, transfer, or otherwise dispose of the shares. Each Shareholder will execute and deliver to PYRAMID on the closing date an investment letter substantially in the form attached hereto as "Exhibit D".

Activities Since Balance Sheet Date

Section 3.14. Since its balance sheet as of December 31, 1969, HATHAWAY has not, and prior to the closing date will not have:

- (a) Issued or sold any stock, bond, or other corporate securities.
- (b) Except for current liabilities incurred and obligations under contracts entered into in the ordinary course of business, incurred any obligation or liability, absolute or contingent.
- (c) Except for current liabilities shown on the balance sheet and current liabilities incurred since that date in the ordinary course of business, discharged or satisfied any lien or encumbrance, or paid any obligation or liability, absolute or contingent.
- (d) Mortgaged, pledged, or subjected to lien or any other encumbrance, any of its assets, tangible or intangible.
- (e) Except in the ordinary course of business, sold or transferred any of its tangible assets or canceled any debts or claims.
- (f) Sold, assigned, or transferred any patents, formulas,

leases, rights, trademarks, trade names, copyrights, licenses, or other intangible assets.

(g) Suffered any extraordinary losses, been subjected to any strikes or other labor disturbances, or waived any rights of any substantial value.

(h) Except for transactions contemplated by this agreement, entered into any transaction other than in the ordinary course of business.

#### Disclosure

Section 3.15. At the date of this agreement Shareholders have, and at the closing date they will have, disclosed all events, conditions, and facts materially affecting the business and prospects of HATHAWAY. Shareholders have not now and will not have, at the closing date, withheld knowledge of any such events, conditions, and facts which they know, or have reasonable ground to know, may materially affect the business and prospects of HATHAWAY. None of the representations and warranties made by Shareholders herein and contained in any certificate or other instrument furnished or to be furnished to PYRAMID pursuant hereto contains or will contain any untrue statement of a material fact, or omits or will omit to state a material fact necessary in order to make the statements contained herein not misleading.

#### ARTICLE 4. CONDUCT OF BUSINESS OF PYRAMID OIL COMPANY PEND- ING CLOSING

##### Access to Information and Documents

Section 4.01. (a) PYRAMID will afford Shareholders and accredited representatives, from the date hereof until consummation of the plan of reorganization, full access during normal business hours to all properties, books, accounts, contracts, commitments, and records of every kind of PYRAMID in order that Shareholders may

have full opportunity to make such investigation as they shall desire to make of, and to keep themselves informed with respect to, the affairs of PYRAMID.

(b) In addition, PYRAMID will permit Shareholders to make extracts or copies of all such books, accounts, contracts, commitments, and records, and will furnish to Shareholders, within ten (10) days after demand, such further financial and operating data and other information with respect to the business and assets of the corporation as Shareholders shall reasonably request from time to time.

(c) Shareholders will use any information so secured only for their own purposes in connection with the consummation of the transaction contemplated hereby and will not divulge the information to any persons not entitled thereto.

Carry on Business as Usual

Section 4.02. PYRAMID will carry on its business in substantially the same manner as heretofore.

Satisfy Conditions Precedent

Section 4.03. PYRAMID will use its best efforts to cause the satisfaction of all conditions precedent contained in this agreement.

Negative Covenants

Section 4.04. Except with the prior written consent of Shareholders, PYRAMID will not declare or pay any dividend, or declare or make any other distribution, to its Shareholders, nor will PYRAMID make any substantial increase in the salary of any officer or employee, nor grant any substantial bonus to any officer or employee, nor loan any substantial money to any officer, employee or other person, nor borrow from any person, firm or corporation any substantial amount, except borrowings necessary to carry on the ordinary business of PYRAMID.

ARTICLE 5. CONDUCT OF BUSINESS OF  
HATHAWAY COMPANY PENDING  
CLOSING

Access to Information and Documents

Section 5.01. (a) Shareholders will cause HATHAWAY to afford the officers and accredited representatives of PYRAMID from the date hereof until consummation of the plan of reorganization, full access during normal business hours to all properties, books, accounts, contracts, commitments, and records of every kind of HATHAWAY in order that PYRAMID may have full opportunity to make such investigation as it shall desire to make of, and to keep itself fully informed with respect to, the affairs of HATHAWAY.

(b) In addition, Shareholders will cause HATHAWAY to permit PYRAMID to make extracts or copies of all such books, accounts, contracts, commitments and records, and to furnish to PYRAMID within ten (10) days after demand, such further financial and operating data and other information with respect to the business and assets of the corporation as PYRAMID shall reasonably request from time to time.

(c) PYRAMID will use any information so secured only for its own purposes in connection with the consummation of the transaction contemplated hereby, and will not divulge the information to any person not entitled thereto.

Carry on Business as Usual

Section 5.02. Shareholders will cause HATHAWAY to carry on its business in substantially the same manner as heretofore, and to continue in full force insurance coverage comparable in amount and scope of coverage to that maintained by it. Shareholders will use their best efforts to cause HATHAWAY to maintain its business organization intact, and to retain its present employees, and to maintain its relationship with suppliers and others having business relationships with it. Shareholders will exercise due diligence in

safeguarding and maintaining confidential reports and data in its business. Shareholders shall not permit HATHAWAY to make any substantial increase in the salary of any officer or employee, nor grant any substantial bonus to any officer or employee of HATHAWAY, nor loan any substantial money to any officer, employee or other person, nor borrow from any person, firm or corporation any substantial amount, except borrowings necessary to carry on the ordinary business of HATHAWAY.

Satisfy Conditions Precedent

Section 5.03. Shareholders will use their best efforts to cause the satisfaction of all conditions precedent contained in this agreement.

ARTICLE 6. CONDITIONS PRECEDENT TO  
OBLIGATIONS OF PYRAMID  
OIL COMPANY TO CLOSE

Section 6.01. The obligations of PYRAMID to consummate the plan of reorganization shall be subject to the following conditions precedent:

Trust of Representations and Warranties  
and Compliance with Covenants

(a) Representations and warranties of Shareholders contained herein shall be true as of the closing date with the same effect as though made on the closing date. Shareholders shall have performed all obligations and complied with all covenants required by this agreement to be performed or complied with by them prior to the closing date. Shareholders shall have delivered to PYRAMID a certificate dated the closing date and signed by each of the Shareholders, certifying as to the truth of the representations and warranties, as to the performance of the obligations, and as to the compliance with the covenants.

Commitment as to Investment Purpose

(b) Each Shareholder shall have delivered to PYRAMID, prior

to the closing date, a written commitment in form satisfactory to PYRAMID, and the regulatory authorities, that the Shareholder is taking the shares of common stock of PYRAMID for purposes of investment and will not dispose of the shares received by him hereunder in a manner which would result in a violation of the Securities Act of 1933.

Acceptability of Papers and Proceedings -

Pyramid

(c) To the extent requested by PYRAMID, the form and substance of all papers and proceedings hereunder shall be acceptable to counsel for PYRAMID.

Acceptability of Papers and Proceedings -

Shareholders

(d) To the extent requested by Shareholders, the form and substance of all papers and proceedings hereunder shall be acceptable to counsel for Shareholders.

Resignations of Officers and Directors -

Hathaway

(e) It is understood that when requested by PYRAMID and after the issuance of the Pyramid Stock to Shareholders, J. ELWOOD HATHAWAY, RICHARD HATHAWAY and JULIAN I. HATHAWAY, and all officers of HATHAWAY will resign, in writing, as officers and directors of HATHAWAY.

Appointment of New Directors - Pyramid

(f) Contemporaneously with the closing, the following persons shall be elected directors of PYRAMID:

J. ELWOOD HATHAWAY  
JULIAN I. HATHAWAY  
JACK W. WOOD  
CHARLES CAPPEL  
RICHARD WALKER  
H. L. ALEXANDER  
THOMAS W. BEWLEY

Officers of PYRAMID will be elected by the directors at their first meeting.

Certified Financial Statements

(g) Darling, Wold and Agee, Certified Public Accountants for HATHAWAY shall deliver to PYRAMID audited financial statements of HATHAWAY for the year ending December 31, 1969 and such statements as were prepared for the preceding four years.

Title Insurance Policies and Confirmation

(h) Shareholders shall have delivered to PYRAMID existing title insurance policies and supplemental confirmation from the issuing company that the land described in the policies and still owned by HATHAWAY is covered by the policies.

ARTICLE 7. CONDITIONS PRECEDENT TO  
OBLIGATIONS OF SHARE-  
HOLDERS TO CLOSE

Obligations of Shareholders hereunder shall be subject to the satisfaction on or prior to the closing date of the following conditions, unless waived by Shareholders.

(a) Amendment of PYRAMID Articles of Incorporation.

PYRAMID shall cause its Articles of Incorporation to be amended prior to the closing date hereof, as follows:

1. Paragraph Fifth of PYRAMID'S original Articles of Incorporation shall provide for seven (7) directors.

2. Article Sixth of PYRAMID'S original Articles of Incorporation shall provide for -Ten Million (10,000,000)- shares of common stock of the par value of One Dollar (\$1.00) per share.

(b) Permits to be Obtained.

As soon as reasonably possible after the signing of this agreement, PYRAMID shall cause an Application to be filed for a Permit to issue not less than Four million two hundred thousand (4,200,000) shares of the capital stock of PYRAMID and shall obtain a permit therefor from the California Commissioner of Corporations, which permit



shall authorize the issuance of said shares of PYRAMID stock to Shareholders.

If any other permits are required from the California Commissioner of Corporations for consummation of the reorganization contemplated herein, then the same shall be obtained prior to the closing date.

The parties hereto agree and understand that the exchange of securities as proposed herein and the issue and delivery of stock from PYRAMID to Shareholders is all subject to securing the requisite qualification and permit from the Commissioner of Corporations of the State of California and the parties understand that the provisions of Section 25102(a) of the California Corporations Code provide as follows:

"THE SALE OF THE SECURITIES WHICH ARE THE SUBJECT OF THIS AGREEMENT HAS NOT BEEN QUALIFIED WITH THE COMMISSIONER OF CORPORATIONS OF THE STATE OF CALIFORNIA AND THE ISSUANCE OF SUCH SECURITIES OR THE PAYMENT OR RECEIPT OF ANY PART OF THE CONSIDERATION THEREFOR PRIOR TO SUCH QUALIFICATION IS UNLAWFUL. THE RIGHTS OF ALL PARTIES TO THIS AGREEMENT ARE EXPRESSLY CONDITIONED UPON SUCH QUALIFICATION BEING OBTAINED."

(c) There shall have been received from the Internal Revenue Service a ruling satisfactory to Shareholders to the effect that the acquisition by PYRAMID of all of the issued and outstanding capital stock of HATHAWAY constitutes a reorganization within the meaning of Section 368(a)(1)(B) of the Internal Revenue Code of 1954 and that no gain or loss will be recognized upon the exchange of shares as provided herein.

Compliance with Covenants

(d) Representations and warranties of PYRAMID contained herein

shall be true as of the closing date with the same effect as though made on the closing date. PYRAMID shall have performed all obligations and complied with all covenants required by this agreement to be performed or complied with by it prior to the closing date. PYRAMID shall have delivered to Shareholders a certificate dated the closing date and signed by the President or Vice-President and the Secretary of PYRAMID, certifying as to the truth of the representations and warranties as to the performance of the obligations, and as to the compliance with the covenants.

(e) On the closing date, there shall be furnished to Shareholders an opinion from DIXON D. MOORHEAD, Esq., counsel for PYRAMID, dated the closing date, and in form satisfactory to counsel for Shareholders, to the effect that PYRAMID is a corporation duly organized, validly existing and in good standing under the laws of the State of California, and that the shares of Common Stock of PYRAMID delivered to Shareholders on the closing date have been duly authorized, issued, and delivered, and are validly issued and outstanding, fully paid and nonassessable shares of common stock of PYRAMID.

#### ARTICLE 8. CONSUMMATION OF TRANSACTION

##### Consideration of Shareholders

Section 8.01. Shareholders shall deliver to PYRAMID on the closing date, certificates representing all of the issued and outstanding shares of stock of HATHAWAY.

##### Consideration of Acquirer

Section 8.02. PYRAMID shall deliver to Shareholders on the closing date, certificates representing One million four hundred thousand (1,400,000) shares of common stock of PYRAMID to each Shareholder in such denominations as the respective Shareholder may request.

Consideration of PYRAMID and HATHAWAY

Section 8.03. Upon the consummation of the transaction required herein, PYRAMID, which will then own the HATHAWAY COMPANY as a subsidiary, shall forthwith proceed to prepare, execute and file the certificate of ownership as described and set forth in Section 4124 of the Corporations Code of the State of California so that there will be a final reorganization of HATHAWAY into PYRAMID and all assets and liabilities of HATHAWAY thereby transferred and assumed by PYRAMID. The then officers of PYRAMID shall take such action as may be necessary to fully comply with all of the provisions of said Section 4124, as amended.

Expenses

Section 8.04. PYRAMID shall pay all costs, expenses and attorney's fees incurred by it in connection with the reorganization set forth herein and Shareholders shall pay all of their costs, expenses and attorney's fees incurred by them for services rendered in all matters arising out of the proposed reorganization.

ARTICLE 9. INTERPRETATION AND ENFORCEMENT

Notices

Section 9.01. Any notice or other communication required or permitted hereunder shall be deemed to be properly given when deposited in the United States mails for transmittal by certified or registered mail, postage prepaid, or when deposited with a public telegraph company for transmittal, charges prepaid, if such communication is addressed:

(a) In the case of PYRAMID, to: Pyramid Oil Company, 91 South Oak Street, P. O. Box 1666, Ventura, California, 93001, Attention: Mr. Jack W. Wood, President, and to Dixon D. Moorhead, Esq., Attorney at Law, 620 East Main Street, Ventura, California, 93001, or to such other person or address as PYRAMID may from time

to time furnish to Shareholders for this purpose.

(b) In the case of Shareholders, to: Mr. J. Elwood Hathaway, 11901 East Florence Avenue, Santa Fe Springs, California, 90670, and to Thomas W. Bewley, Esq., Attorney at Law, 13215 East Penn Street, Whittier, California, 90602, or to such other person or address as Shareholders may from time to time furnish to PYRAMID for this purpose.

Assignment

Section 9.02. (a) Except as limited by the provisions of Sub-section (b), this agreement shall be binding upon and inure to the benefit of the respective successors and assigns of the parties, as well as the parties.

(b) Any assignment of this agreement or the rights hereunder of any of the parties, without the written consent of the other parties, shall be void.

Entire Agreement; Counterparts

Section 9.03. This instrument and the exhibits hereto contain the entire agreement between the parties with respect to the transaction contemplated hereby. It may be executed in any number of counterparts, each of which shall be deemed an original, but such counterparts together constitute only one and the same instrument.

Controlling Law

Section 9.04. The validity, interpretation, and performance of this agreement shall be controlled by and construed under the laws of the State of California, the state in which this agreement is being executed.


Executed on May 1, 1970 at Santa Fe Springs, California.


PYRAMID OIL COMPANY,  
A California Corporation

By  Jack W. Wood, President

By  Gayle Osborn, Secretary

SHAREHOLDERS

  
J. Elwood Hathaway

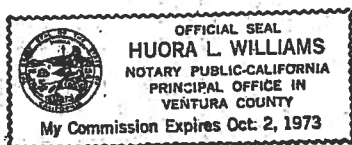
  
Richard F. Hathaway

  
Julian I. Hathaway

STATE OF CALIFORNIA       )  
                                  ) ss.  
COUNTY OF                    )

On July 17, 1970, 1970, before me, the undersigned, a Notary Public for the State of California, personally appeared JACK W. WOOD and GAYLE OSBORN, known to me to be the President and Secretary, respectively, of the corporation that executed the within instrument, and acknowledged to me that such corporation executed the same.

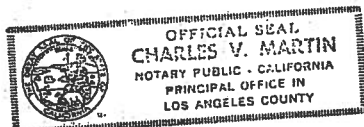
Huora L. Williams  
Notary Public in and for said County  
and State



STATE OF CALIFORNIA       )  
                                  ) ss.  
COUNTY OF LOS ANGELES    )

On May 12, 1970, before me, the undersigned, a Notary Public for the State of California, personally appeared J. ELWOOD HATHAWAY, RICHARD F. HATHAWAY and JULIAN I. HATHAWAY, known to me to be the persons whose names are subscribed to the within instrument, and acknowledged that they executed the same.

Charles V. Martin  
Notary Public in and for said County  
and State  
*My Commission Expires Mar. 13, 1971*



CONSENT OF SHAREHOLDERS' WIVES

ANNA A. HATHAWAY, the wife of J. ELWOOD HATHAWAY, F. NADINE HATHAWAY, the wife of RICHARD F. HATHAWAY, and HELEN M. HATHAWAY, the wife of JULIAN I. HATHAWAY, each certify that she has read the foregoing Plan of Agreement of Reorganization entered into by PYRAMID OIL COMPANY, and J. ELWOOD HATHAWAY, RICHARD F. HATHAWAY and JULIAN I. HATHAWAY. Since the stock owned by the husbands of the undersigned is considered as community property by the parties owning the same as defined under the laws of the State of California and in order to consent to and approve the transfer of the Hathaway Company shares of stock as set forth in the foregoing Agreement, the undersigned hereby approve said Plan of Reorganization and consent to the transfer of the community property interest in said Hathaway stock, all as set forth in said Agreement.

Dated May 1, 1970.

Anna A. Hathaway  
ANNA A. HATHAWAY

F. Nadine Hathaway  
F. NADINE HATHAWAY

Helen M. Hathaway  
HELEN M. HATHAWAY

NAME OF SHAREHOLDER

COLUMN ONE

COLUMN TWO

Number of Shares of  
Stock in Hathaway to  
be transferred to  
Pyramid

Number of Shares of  
Stock in Pyramid to  
be transferred to  
Shareholder

J. ELWOOD HATHAWAY

500

1,400,000

RICHARD F. HATHAWAY

500

1,400,000

JULIAN I. HATHAWAY

500

1,400,000

"EXHIBIT A"

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PYRAMID OIL COMPANY

APRIL 7, 1970

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CITY INVESTING COMPANY:

Certificate No.	NC	215862	3	Shares
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Acquired 3-16-70 as payment of 2% dividend

Certificate No.	CB/O	12953	20	Shares
Certificate No.	CB	11029	100	Shares
Certificate No.	CB	11030	100	Shares
Certificate No.	CO	15562	88	Shares
Certificate No.	NC/O	131846	3	Shares
Certificate No.	NC/O	112465	88	Shares

TELEDYNE, INC.:

Certificate No.	LP	018748	15	Shares
Certificate No.	LS	05236	13	Shares

AMERICAN TELEPHONE & TELEGRAPH COMPANY:

Name of PYRAMID OIL

Certificate No.	64RA044150	7	Shares
Certificate No.	64XC105340	139	Shares
Certificate No.	12-021609	12	Shares
Certificate No.	JA10413	6	Shares
Certificate No.	P520748	4	Shares

March, 1970, Time Certificate of Deposit -  
(Maturity: 2 Years from date)

Certificate No.	061128	\$	13,000.00
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AMERICAN TELEPHONE & TELEGRAPH COMPANY:

-continued-

Certificate No.	P572443	4	Shares
Certificate No.	S075728	30	Shares
Certificate No.	E384864	76	Shares

LUBRICANTES NACIONALES S. A. - March 23, 1970

Certificate No.	1885538	Series "C"	50	Shares
Certificate No.	1885536		50	Shares



PYRAMID OIL COMPANY  
STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 1969 AND 1968

ASSETS

	<u>1969</u>	<u>1968</u>
<u>Current Assets</u>		
Cash and Time Deposits	\$ 52,236	\$157,820
Accounts Receivable	92,249	79,127
Bankers Acceptances - At Cost	102,709	-0-
Marketable Securities - At Cost (Market Values: 1969, \$32,067 - 1968, \$38,480)	13,561	13,561
Prepaid Expenses and Supplies	7,626	9,577
<u>Total Current Assets</u>	<u>\$268,381</u>	<u>\$260,085</u>
<u>Property and Equipment - Net</u> - (Exhibit A-1)	454,168	496,692
<u>Investment in Pyramid-Tracy Wyoming Joint Venture</u>	<u>2,997</u>	<u>3,397</u>
<u>TOTAL ASSETS</u>	<u>\$725,546</u>	<u>\$760,174</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

<u>Current Liabilities</u>		
Accounts and Expenses Payable	\$ 31,013	\$ 15,047
Dividends Payable on Capital Stock	-0-	16,355
Federal Income Tax	4,116	17,496
California Franchise Tax	19	-0-
Long-Term Debt Due Within One Year	8,853	35,777
Unclaimed Prior Years' Dividends	66,276	61,515
<u>Total Current Liabilities</u>	<u>\$110,277</u>	<u>\$146,190</u>
<u>Long-Term Liability</u>		
Equipment Note (Less Portion Due Within One Year) (Note 1)	\$ -0-	\$ 7,203
<u>Stockholders' Equity</u>		
Capital Stock, Par Value, \$1 Per Share (1,000,000 Shares Authorized; 820,155 Issued) (Note 2)	\$483,255	\$483,255
Paid-In Surplus	129,160	129,160
Surplus From Appreciated Oil Property	31,071	31,353
Accumulated Deficit - Exhibit B	(27,607)	(36,377)
	\$615,879	\$607,391
<u>Less Shares in Treasury, At Cost (1969, 2,430; 1968, 2,430)</u>	<u>610</u>	<u>610</u>
	<u>\$615,269</u>	<u>\$606,781</u>
<u>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</u>	<u>\$725,546</u>	<u>\$760,174</u>

# HATHAWAY COMPANY

P. O. BOX 2371

SANTA FE SPRINGS, CALIFORNIA 90670

December 31, 1969

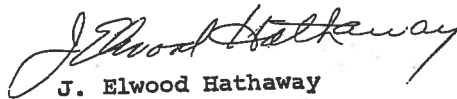
<u>Securities:</u>	<u>Shares</u>	<u>Cost</u>
Anadite Inc.	100	\$2175.00
Family Life Ins. Co.	120	4464.71
Seven-Up Co.	120	1708.34
Foremost McKesson	180	4450.29
Great Western Financial	240	6235.56
Norton Simon, Inc.	109	4266.85
Dickson Electric Corp.	540	9420.00
Data Technology	60	1502.28
Empire Financial	120	3403.60
Varian Associates	120	3741.56
Vetco Offshore Ind.	90	1965.00
Trailer Equip. Dist.	50	537.50
Ross Medical Corp.	200	2000.00

May 1, 1970

Pyramid Oil Company  
Ventura, California  
Gentlemen:

I hereby certify that I am acquiring One Million Four Hundred Thousand (1,400,000) shares of your unissued capital stock. I am acquiring all of said shares for my own personal account, for investment and without any present intention of selling or further distributing the same. I do not presently have reason to anticipate any change in my circumstances or any other particular occasion or event which would cause me to sell said shares. I am fully aware of the fact that in issuing and selling said shares to me you are relying upon the truth and accuracy of this statement.

Sincerely yours,

  
J. Elwood Hathaway

May 1, 1970

Pyramid Oil Company  
Ventura, California  
Gentlemen:

I hereby certify that I am acquiring One Million Four Hundred Thousand (1,400,000) shares of your unissued capital stock. I am acquiring all of said shares for my own personal account, for investment and without any present intention of selling or further distributing the same. I do not presently have reason to anticipate any change in my circumstances or any other particular occasion or event which would cause me to sell said shares. I am fully aware of the fact that in issuing and selling said shares to me you are relying upon the truth and accuracy of this statement.

Sincerely yours,

  
Richard P. Hathaway

May 1, 1970

Pyramid Oil Company  
Ventura, California  
Gentlemen:

I hereby certify that I am acquiring One Million Four Hundred Thousand (1,400,000) shares of your unissued capital stock. I am acquiring all of said shares for my own personal account, for investment and without any present intention of selling or further distributing the same. I do not presently have reason to anticipate any change in my circumstances or any other particular occasion or event which would cause me to sell said shares. I am fully aware of the fact that in issuing and selling said shares to me you are relying upon the truth and accuracy of this statement.

Sincerely yours,



Julian I. Hathaway



**PYRAMID OIL COMPANY  
10707 Norwalk Boulevard  
P.O. Box 3225  
Santa Fe Springs, California 90670**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

**To Be Held September 18, 1986**

To the Shareholders:

NOTICE is hereby given that the Annual Meeting of Shareholders (the "Annual Meeting") of Pyramid Oil Company, Inc. (the "Company") will be held at the RAMADA INN, Rio Hondo Room, 12500 East Firestone Boulevard, Norwalk, California, on Thursday, September 18, 1986 at 10:30 a.m. Pacific Daylight Time, for the following purposes:

1. To approve the Agreement and Plan of Reorganization and Corporate Separation (the "Plan of Reorganization") among the Company and certain of the Company's Shareholders Listed in Schedule 1 therein (the "Exchanging Shareholders").

2. To approve an amendment to the Company's By-Laws that would reduce the size of the Company's Board of Directors from seven to five individuals.

3. To elect directors to serve until the next annual meeting and until their successors are elected and qualified. Information concerning these matters, including the names of the nominees for Company's Board of Directors, is set forth in the attached Proxy Statement, which is a part of this notice.

4. To approve the selection of Carpenter, Kuhn & Sprayberry as independent accountants for the Company for the year ending December 31, 1986.

5. To consider and transact such other business as may properly come before the Annual Meeting.

Holders of the Company's Common Stock at the close of business on July 21, 1986, the record date fixed by the Board of Directors, are entitled to notice of and to vote at the Annual Meeting. The Company's Board of Directors urges that all shareholders of record exercise their right to vote at the meeting personally or by proxy. Accordingly, we are sending you the following Proxy Statement and the enclosed proxy card.

A copy of the Company's Annual Report to Shareholders which contains financial statements and other information of interest to shareholders is enclosed herewith. You are urged to read the enclosure.

It will be helpful to us if you will please take a few minutes now to read the Proxy Statement, then complete, sign and date the proxy card and return it in the enclosed self-addressed postpaid envelope.

**Your prompt response will be appreciated.**

**By Order of the Board of Directors**

Ray Smith  
Secretary

Santa Fe Springs, California  
August 25, 1986

**PYRAMID OIL COMPANY**  
10707 Norwalk Boulevard  
P.O. Box 3225  
Santa Fe Springs, California 90670

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**PROXY STATEMENT**

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**PROXY SOLICITATION**

This statement is furnished in connection with the solicitation by the management of Pyramid Oil Company, Inc. (hereinafter called the "Company") of proxies to be used at the Annual Meeting of Shareholders of the Company to be held on September 18, 1986, and at any adjournment or adjournments thereof. This Proxy Statement was first mailed to shareholders on or about August 29, 1986.

The enclosed proxy, when signed and returned, may be revoked at any time before it is voted by attending the meeting and voting in person or by filing with the Secretary of the Company an instrument revoking the proxy or a duly executed proxy bearing a later date. If the enclosed form of proxy is properly executed and returned, the shares represented thereby will be voted in accordance with the instructions specified thereon. If no instructions are specified, the shares will be voted FOR the Plan of Reorganization, the proposed amendment to the Company's By-Laws reducing the number of directors from seven to five, the election of the nominees for directors named herein and the ratification of the selection of Company's outside auditors named herein. If any other matters are properly presented at the meeting, or any adjournment thereof, the persons voting the proxies will vote them in accordance with their best judgment.

Solicitation is to be made primarily by mail, but some solicitation may take place by telephone, telegraph or personal interview. Proxies may be solicited by officers, directors and regular employees of the Company. The Company will not pay any additional compensation for such solicitations. Arrangements may be made with brokerage houses and with the Company's transfer agent, U.S. Stock Transfer, Glendale, California, to send notices, proxy statements, proxies and other materials to shareholders. The cost for these services is expected to be nominal and will be borne by the Company.

**VOTING**

Only holders of the Company's common stock of record at the close of business on July 21, 1986, shall be entitled to notice of and to vote at the meeting. Transferees of shares which are transferred on the books of the Company subsequent to such date shall not be entitled to notice of or to vote at the meeting.

Pursuant to the Plan of Reorganization dated as of December 31, 1985, the Exchanging Shareholders have agreed that the Proxy Agents shall cast the Exchanging Shareholders' votes on each matter presented for shareholder approval for, against and abstaining in the same proportion as the non-exchanging shareholders vote on each matter presented. However, in the event that the Plan of Reorganization is not approved by a majority of the Company's outstanding shares, then the Chairman of the meeting shall immediately adjourn the Annual Meeting of Shareholders in order for the Company's directors to meet and consider the alternatives available to the Company and its shareholders in light of the defeat of the Plan of Reorganization.

As of July 21, 1986 there were outstanding 5,071,650 shares of common stock entitled to vote. Each of such shares will be entitled to one vote for the Plan of Reorganization, the reduction in the

size of the Company's Board of Directors and the selection of the Company's auditors. Each share of common stock is entitled to one vote for the election of each director of the Company except in the event of cumulative voting. Under the California General Corporation Law, if a shareholder gives notice prior to the commencement of voting on the election of directors of his or her intention to cumulate his or her votes then all shareholders (or their proxies) may cumulate their votes. If no such notice is given then there will be no cumulative voting. In the event that the proposed amendment to Company's By-Laws is approved and cumulative voting is requested, each share will be entitled to a total of five votes for the election of directors and such votes may be divided, in any way a shareholder (or his or her proxy) desires, among those candidates whose names have been placed in nomination. In the event that the proposed amendment to the Company's By-Laws is not approved by the Company's shareholders and cumulative voting is requested, each share will be entitled to a total of seven votes for the election of directors and such votes may be divided, in any way a shareholder (or his or her proxy) desires, among those candidates whose names have been placed in nomination. The form of proxy provided each shareholder will allow the shareholder to vote twice; first, for a slate of five directors whose names have been placed in nomination, and then for a slate of seven directors whose names have been placed in nomination. If the proposed amendment to the Company's By-Laws is approved by the shareholders, then the shareholders' votes for the nominees for the five member Board of Directors shall be counted, alternatively, if the proposed amendment is defeated by the shareholders, the shareholders' votes for the nominees for the seven member Board of Directors shall be counted.

In the event of cumulative voting, the Proxy Agents named in the form of proxy intend to distribute the proxy votes in such proportions as they see fit among the nominees for Directors set forth below in the section entitled "Nominees for Election as Directors." In the absence of cumulative voting, a simple majority of the shares voting will elect all of the Directors. Under either form of voting, if the proposed amendment to the Company's By-Laws is approved, the five candidates receiving the highest number of votes will be elected, and if the proposed amendment to the Company's By-Laws is defeated, then the seven candidates receiving the highest number of votes will be elected.

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## **THE PLAN OF REORGANIZATION**

### **No Dissenters' Rights**

Under applicable California law, dissenters' rights of appraisal will not be available to shareholders in connection with the Plan of Reorganization.

### **Summary of the Plan of Reorganization**

Two major steps are involved in the Plan of Reorganization:

(1) Certain assets (principally developed and undeveloped oil, gas and other mineral lease acreage and real property) and liabilities of the Company will be transferred to Splitoff Oil Company ("Splitoff Company"), a wholly owned subsidiary of the Company that was formed in 1985, prior to the Closing. See "Description of the Agreement — Properties to be Transferred." The agreed upon value of such assets on September 30, 1985, approximates the same percentage of the Company's net assets as the Exchanging Shareholders' percentage of stock ownership of the Company (the "Exchange Percentage"). The Exchanging Shareholders are Julian I. Hathaway a former director and officer of the Company, the Richard F. Hathaway and Nadine Hathaway Trust, dated February 18, 1984, Nadine Hathaway, Trustee, and members of the Hathaway families. See "Description of the Agreement — The Exchanging Shareholders."

(2) The Company will transfer to the Exchanging Shareholders all of the outstanding Common Stock of Splitoff Company held by the Company (2,574,470 shares) in exchange for all of the Exchanging Shareholders' shares of the Company's common stock (2,574,470 shares).

Conditions to consummation of the Plan of Reorganization include that it be completed before September 30, 1986, unless such date is extended by mutual agreement of the parties, and that the parties receive from the Internal Revenue Service tax rulings to the effect that the Plan of Reorganization constitutes a tax-free reorganization and that no gain or loss will be recognized by the parties. See "Description of the Agreement — Conditions to Consummation of the Plan of Reorganization."

### Major Effects of the Plan of Reorganization on the Company and the Exchanging Shareholders

The following information highlighting certain financial effects the Plan of Reorganization may have on the Company and the Exchanging Shareholders is excerpted from the detailed information contained later herein, and is presented here for your convenience. You are urged to read and consider all the information presented in this Proxy Statement before voting your Proxy. It should be noted that the pro forma information is not necessarily indicative of what would have been achieved had the Plan of Reorganization been consummated at the date indicated.

The float of the Company's common stock at July 21, 1986, was 26% and if the transactions contemplated by the Plan of Reorganization are consummated it is anticipated that the float will increase to 52% of the Company's outstanding common stock. Upon consummation of the transactions contemplated by the Plan of Reorganization, it is possible the market price of the Company's common stock may be affected. However, it is the policy of the Company's management not to predict the future price of the Company's common stock.

Included in this Proxy Statement for the periods ending December 31, 1985, and June 30, 1986 are Unaudited Pro Forma Financial Statements, including Balance Sheet, Statement of Operations, Statement of Changes in Financial Position and the footnotes thereto (the "Unaudited Pro Forma Financial Statements"). The Unaudited Pro Forma Financial Statements and the material included in "Selected Operational and Financial Information," "Drilling Activity and Producing Wells" and "Certain Unaudited Comparative Data" sections of this Proxy Statement describe the financial ramifications of the transactions contemplated by the Plan of Reorganization.

Set forth below are the Company's historical and pro forma net earnings per share for the year ended December 31, 1985. The historical data is based upon the 5,071,650 shares of the common stock of the Company outstanding during such periods and the pro forma data assumes that the transactions contemplated by the Plan of Reorganization had been consummated on January 1, 1985. See "Pro Forma Statement of Operations".

	Year ended December 31, 1985	
	Historical	Unaudited Pro Forma
Net loss .....	<u>\$ (153,837)</u>	<u>\$ (232,169)</u>
Loss per common share .....	<u>\$ (.03)</u>	<u>\$ (.09)</u>

The following table shows the historical and pro forma capitalization of the Company at December 31, 1985, and the pro forma capitalization of the Company at June 30, 1986, assuming that the transactions contemplated by the Plan of Reorganization had been completed on December 31, 1985.

	December 31, 1985				June 30, 1986	
	Historical Capitalization	Percent of Total Capitalization	Pro Forma Capitalization	Percent of Total Capitalization	Pro Forma Capitalization	Percent of Total Capitalization
Current Portion of long-term debt	\$ 27,300		\$ —		\$ 48,000	
Long-term debt .....	11,405		—		192,000	
Total long-term debt .....	38,705	.34	—	0	240,000	3.16
Common stock outstanding .....	2,187,089		1,080,868		1,080,877	
Retained earnings .....	9,248,565		6,602,970		6,280,173	
Total shareholder equity .....	11,435,654	99.66	7,683,838	100	7,361,050	96.84
Total capitalization .....	<u>\$11,474,359</u>	<u>100.00</u>	<u>\$7,683,838</u>	<u>100</u>	<u>\$7,601,050</u>	<u>100.00</u>

The proposed transaction would increase the Company's book value per share from \$2.25 a share to \$3.07 a share.

The historical and pro forma results of operations for oil and gas producing activities for the year ended December 31, 1985 are shown below. The pro forma amounts represent the results of the Company's oil and gas activities as if the transactions contemplated by the Plan of Reorganization had occurred January 1, 1985:

	Historical	Pro Forma
Net Sales .....	\$5,594,800	\$2,585,300
Production Costs .....	4,059,800	2,051,700
Exploration Costs .....	52,800	4,800
Depreciation, Depletion and Amortization .....	1,694,800	849,000
Gross Profit .....	(212,600)	(320,200)
Income Tax expense .....	(97,800)	(147,300)
Results of Operations From Production Activities	<u>\$ (114,800)</u>	<u>\$ (172,900)</u>

Below are the quantities of proved developed oil and gas reserves of the Company as of December 31, 1985, presented on a historical basis and the quantities of proved developed oil and gas reserves as of December 31, 1985 and June 30, 1986 as if the transactions contemplated by the Plan of Reorganization had been consummated on December 31, 1985:

	December 31, 1985			June 30, 1986	
	Historical	The Company	Splitoff Company	The Company	Splitoff Company
Total Proved Developed:					
Oil (BBLs) .....	<u>1,727,000</u>	<u>854,000</u>	<u>873,000</u>	<u>751,400</u>	<u>664,000</u>
Gas (MCF) .....	<u>755,000</u>	<u>585,000</u>	<u>170,000</u>	<u>573,000</u>	<u>161,000</u>



The changes in quantities of proved developed oil and gas reserves of the Company and of Splitoff Company from December 31, 1985 to June 30, 1986 are shown below:

	The Company		Splitoff Company	
	Oil (BBLs)	Gas (MCF)	Oil (BBLs)	Gas (MCF)
New Reserves .....	65,000	—	—	—
Uneconomical Properties .....	(110,000)	—	(158,600)	—
Production .....	(57,600)	(12,000)	(50,400)	(9,000)
	<u>(102,600)</u>	<u>(12,000)</u>	<u>(209,000)</u>	<u>(9,000)</u>

The table presented above is excerpted from the section of this Proxy Statement entitled "Selected Operational and Financial Information — Reserve Information," where it is accompanied by footnotes which describe the bases upon which it was prepared.

Below are the standardized measure of discounted future net cash flows relating to proved oil and gas reserves at December 31, 1985, presented on a historical basis and the standardized measure of discounted estimated future net cash flow at December 31, 1985 and June 30, 1986 that the Company and Splitoff Company would have had if the transactions contemplated by the Plan of Reorganization been consummated on December 31, 1985:

	December 31, 1985			June 30, 1986	
	Historical	The Company	Splitoff Company	The Company	Splitoff Company
Future Cash Inflows .....	\$44,060,000	\$21,693,300	\$22,366,700	\$10,697,400	\$ 8,949,500
Future Production and Development Costs ....	24,639,000	11,623,900	13,015,100	7,775,100	6,909,000
Future Income Tax Expense .....	5,826,000	3,020,900	2,805,100	876,700	612,200
Future Net Cash Flows .....	13,595,000	7,048,500	6,546,500	2,045,600	1,428,300
10% Annual Discount .....	5,511,000	3,404,600	2,106,400	991,000	459,000
Standardized Measure of Future Net Cash Flows .....	<u>\$ 8,084,000</u>	<u>\$ 3,643,900</u>	<u>\$ 4,440,100</u>	<u>\$ 1,054,600</u>	<u>\$ 969,300</u>

The table presented above is excerpted from the section of this Proxy Statement entitled "Selected Operational and Financial Information — Standardized Measure of Discounted Estimated Future Net Cash Flow," where it is accompanied by footnotes which describe the bases upon which it was prepared.

The changes in the standardized measure of discounted cash flows for the Company and for Splitoff Company from December 31, 1985 to June 30, 1986 are shown below as if the transactions contemplated by the Plan of Reorganization had been consummated on December 31, 1985:

	The Company	Splitoff Company
Price Reduction .....	\$(8,752,500)	\$(7,322,300)
Cost Reduction .....	1,943,800	1,727,200
Reduction in Economic Quantity .....	(338,400)	(785,000)
Increase in Reserves .....	995,000	—
Production .....	(995,000)	(931,000)
Net Changes in Income Taxes .....	2,144,200	2,192,900
	<u>(5,002,900)</u>	<u>(5,118,200)</u>
Reduction of Discount .....	2,413,600	1,647,400
Total Change .....	<u>\$(2,589,300)</u>	<u>\$(3,470,800)</u>

The table presented above is excerpted from the section of this Proxy Statement entitled "Selected Operational and Financial Information — Standardized Measure of Discounted Estimated Future Net Cash Flow," where it is accompanied by footnotes which describe the bases upon which it was prepared.

The Company's historical and pro forma principal changes in the standardized measure of discounted future net cash flows during the year ended December 31, 1985 are shown below. The pro forma amounts represent the changes after giving effect to the transactions contemplated by the Plan of Reorganization.

	<u>Historical</u>	<u>Pro Forma</u>
Extensions .....	\$ —	\$ —
Revisions of previous Estimates:		
Price Changes .....	(800,000)	(447,000)
Quantity Changes .....	(1,824,000)	(1,926,000)
Other, Net .....	(297,000)	(148,000)
Development Costs Incurred .....	1,469,000	993,000
Net Oil and Gas Sales .....	(2,389,000)	(922,000)
Accretion of Discount .....	1,399,000	697,000
Proved Developed Reserves (Present Value Before Taxes) .....	(2,442,000)	(1,753,000)
Net Changes in Income Taxes .....	733,000	525,900
Net Decrease .....	<u>\$ (1,709,000)</u>	<u>\$ (1,227,100)</u>

#### **Reasons for the Plan of Reorganization**

The Board of Directors of the Company has concluded that the Plan of Reorganization is in the best interests of the Company and has approved the Plan of Reorganization, subject to the approval of the Company's shareholders that are not parties to the Exchanging Shareholder Agreement and receipt of a satisfactory tax ruling from the Internal Revenue Service. See "Federal Income Tax Consequences."

The Exchanging Shareholders, represented by J.I. Hathaway, have advocated that the Company use its financial resources to explore and develop new oil and gas prospects, whereas, current management believes that the Company should drill in proven fields and, where economically advantageous, purchase producing oil and gas reserves. Current management also believes that the Company's resources should be used to expand and upgrade the Company's oil well service division located in Taft, California. In light of the Company's limited resources, both philosophies cannot be accommodated simultaneously. These differing philosophies have led to continuing disagreements between the Exchanging Shareholders and Company management as to the Company's direction. The Plan of Reorganization approved by the Company's Board of Directors and submitted to the Company's shareholders for their approval will allow each group to pursue its own business strategies. See "Description of the Agreement — Properties to be Transferred."

#### **Investment Analyst's Report**

The Company retained Pennell, Nielsen & Associates ("PNA"), a financial advisory firm, to make an independent evaluation of the fairness of the Plan of Reorganization to the Company's shareholders from a financial point of view. The firm was founded in 1979 by William Pennell and David R. Nielsen and provides specialized consulting to businesses, including evaluations in connection with corporate reorganizations.

Mr. Pennell's investment banking experience includes employment with Shearson, Hammil & Co. (now Shearson Lehman Brothers Inc.) and DuPont Walston & Co. where he was an allied Member of the New York Stock Exchange. Mr. Pennell began his private consulting practice in 1973. He has served as a guest lecturer at the Pepperdine School of Business, and on the Boards of Directors of numerous private and public companies. He is presently a Director of La Serena Manor, Inc.

Mr. Nielsen began his investment banking career with William R. Staats Company (predecessor to duPont Glore Forgan), where he became a partner in 1968. He has spent more than twenty years in investment banking, including responsibility for the West Coast Corporate finance efforts of a number of investment and financial service firms including Crowell, Weedon & Company. Mr. Nielsen joined Mr. Pennell in 1979.

On February 12, 1986, PNA delivered to the Company's Board of Directors a letter stating its opinion that, as of the date thereof, the terms of the Plan of Reorganization were fair from a financial point of view to the shareholders of the Company. The Exchange Percentage was determined by negotiations between the Company and the Exchanging Shareholders and was not formulated in reliance upon the recommendation of PNA. In rendering its opinion, PNA assumed, without independent verification, the accuracy, completeness and fairness of the publicly available information with respect to the Company reviewed and all other information provided it, including information set forth in this Proxy Statement and the reserve report and study as of December 31, 1985, relating to the reserves of the Company prepared by Babson and Sheppard, an independent oil and gas consulting firm. The full text of the PNA opinion is attached hereto as Exhibit 1. The Company has agreed to pay PNA \$25,000 for its financial advisory services in connection with the rendering of its opinion. Prior to rendering its opinion in connection with the Plan of Reorganization, PNA had never performed any investment banking or consulting services for the Company.

Representatives of PNA met with the Company's Board of Directors in May, 1986 to discuss PNA's findings and answer the Directors' questions about its opinion. At that time PNA noted that its opinion had not changed as to the fairness of the Plan of Reorganization to the Company's shareholders.

#### **Future Operation of Splitoff Company**

Upon consummation of the Plan of Reorganization and the transactions contemplated therein (the "Closing"), Splitoff Company will actively engage in the business of exploring for, developing and producing oil and natural gas as a separate company, wholly owned by the Exchanging Shareholders. It is anticipated that approximately 17 of the Company's 102 employees will terminate their employment with the Company and become employees of Splitoff Company.

#### **Certain Effects of the Plan of Reorganization**

The Plan of Reorganization provides that the Company will transfer to Splitoff Company certain of the Company's oil and gas properties in Los Angeles and Orange Counties in California, Colorado, Kansas, Texas, Oklahoma and Pennsylvania and real property located in California and Colorado. See "Description of the Agreement — Description of Properties to be Transferred." Splitoff Company will receive no greater legal title to the properties to be transferred to it than that which is currently held by the Company, and under the Plan of Reorganization, the Company has not warranted that it has good and marketable title to any of the properties or interests to be transferred to Splitoff Company.

**PYRAMID OIL COMPANY**  
**PRO FORMA BALANCE SHEET**  
**(Unaudited)**

The following includes the consolidated balance sheet of the Company and the pro forma balance sheet at December 31, 1985 and June 30, 1986. The pro forma adjustments represent the assets and liabilities to be transferred to Splitoff Company, the stock of which shall be exchanged by the Company for the Exchanging Shareholders stock in the Company. See "Description of the Agreement — Properties to be Transferred." The pro forma column presents the balance sheet of the Company after giving effect to the transactions contemplated by the Plan of Reorganization. The pro forma balance sheet should be read in conjunction with the other financial statements and related notes included elsewhere herein.

**ASSETS**

	December 31, 1985		
	Historical	Pro Forma Adjustments Dr. (Cr.)	Pro Forma
Time deposits .....	\$ 1,550,000	\$ —	\$ 1,550,000
Other current assets .....	2,052,692	(502,878) (1)	1,549,814
Property and equipment, net .....	9,795,255	(3,569,834) (2)	6,225,421
Other assets .....	60,208	(10,395)	49,813
	<u>\$13,458,155</u>	<u>\$ (4,083,107)</u>	<u>\$ 9,375,048</u>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

Current liabilities .....	\$ 1,094,347	574,658 (3)	\$ 519,689
Long-term liabilities .....	928,154	(243,367) (4)	1,171,521
	<u>2,022,501</u>	<u>331,291</u>	<u>1,691,210</u>
Stockholders' equity:			
Common stock .....	2,187,089	1,106,221 (5)	1,080,868
Retained earnings .....	9,248,565	2,645,595 (6)	6,602,970
	<u>11,435,654</u>	<u>3,751,816</u>	<u>7,683,838</u>
	<u>\$13,458,155</u>	<u>\$ 4,083,107</u>	<u>\$ 9,375,048</u>

**ASSETS**

	June 30, 1986		
	Historical	Pro Forma Adjustments Dr. (Cr.)	Pro Forma
Time deposits .....	\$ 1,475,000	\$ —	\$ 1,475,000
Other current assets .....	1,940,287	(223,268) (1)	1,717,019
Property and equipment, net .....	8,831,301	(3,147,329) (2)	5,683,972
Other assets .....	58,668	(11,115)	47,553
	<u>\$12,305,256</u>	<u>\$ (3,381,712)</u>	<u>\$ 8,923,544</u>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

Current liabilities .....	\$ 903,748	544,051 (3)	\$ 359,697
Long-term liabilities .....	726,810	(475,987) (4)	1,202,797
	<u>1,630,558</u>	<u>68,064</u>	<u>1,562,494</u>
Stockholders' equity:			
Common stock .....	2,187,089	1,106,212 (5)	1,080,877
Retained earnings .....	8,487,609	2,207,436 (6)	6,280,173
	<u>10,674,698</u>	<u>3,313,648</u>	<u>7,361,050</u>
	<u>\$12,305,256</u>	<u>\$ 3,381,712</u>	<u>\$ 8,923,544</u>

(Footnotes on following page)

**PYRAMID OIL COMPANY**  
**NOTES TO PRO FORMA BALANCE SHEET**  
**(Unaudited)**

- (1) The decrease in other current assets is the result of the allocation of cash, accounts receivable, refundable income taxes, crude oil inventory and prepaid expenses to Splitoff Company. The allocation of these current assets was based on properties to which they were directly associated and which are proposed to be transferred to Splitoff Company pursuant to the Plan of Reorganization. See "Description of Agreement."
- (2) The decrease in property and equipment (net of depreciation) is the result of the allocation of oil and gas properties, drilling equipment and other fixed assets to the Splitoff Company. These fixed assets were allocated to Splitoff Company based on properties to which they were directly associated and which are proposed to be transferred to Splitoff Company pursuant to the Plan of Reorganization. See "Description of the Agreement" and "Standardized Measure of Discounted Estimated Future Net Cash Flows."
- (3) The decrease in current liabilities is the result of the allocation of the current portion of long-term debt, accounts payable, accrued pension plan, accrued taxes other than income, accrued payroll, and other accrued liabilities to Splitoff Company. This allocation is based on properties to which they were directly associated and which are proposed to be transferred to Splitoff Company pursuant to the Plan of Reorganization. See "Description of Agreement."
- (4) The increase in long-term liabilities is the result of an increase in the long-term provision for deferred taxes. The increase in the long-term provision for deferred taxes results from the allocation to Splitoff Company of items of timing difference in the recognition of revenue and expenses for tax and financial statement purposes which on a historical basis had served to reduce the deferred tax liability of the Company. Items of timing difference were allocated to Splitoff Company based on properties to which they were directly associated and which are proposed to be transferred to Splitoff Company pursuant to the Plan of Reorganization. See "Description of the Agreement."
- (5) The decrease in common stock is based on the par value of outstanding shares to be received from the Exchanging Shareholders pursuant to the Plan of Reorganization. See "Description of the Agreement."
- (6) The decrease in retained earnings is the result of the allocation of retained earnings to the Splitoff Company. This allocation is based on the portion of accumulated earnings resulting from the above allocation of assets and liabilities.

# PYRAMID OIL COMPANY

## PRO FORMA STATEMENT OF OPERATIONS

(Unaudited)

The following includes the consolidated statements of operations for the Company and the pro forma statements of operations of the Company for the year ended December 31, 1985 and the six months ended June 30, 1986. The pro forma column shows the results of operations of the Company as if the transactions contemplated by the Plan of Reorganization had been effected on January 1, 1985. See "Description of the Agreement — Properties to be Transferred." The pro forma statement of operations should be read in conjunction with the other financial statements and related notes included elsewhere herein.

	Year Ended December 31, 1985		
	Historical	Pro Forma Adjustments Dr. (Cr.)	Pro Forma
<b>REVENUES</b>			
Oil and gas sales, net .....	\$ 5,498,377	\$ 2,961,258 (1)	\$2,537,119
Well servicing .....	4,359,704	—	4,359,704
Interest income .....	199,169	—	199,169
Other income .....	166,142	166,142 (2)	—
	<u>10,223,392</u>	<u>3,127,400</u>	<u>7,095,992</u>
<b>COSTS AND EXPENSES</b>			
Operating expenses — Oil and gas .....	3,195,924	(1,580,819) (1)	1,615,105
Operating expenses — Well servicing .....	4,149,397	—	4,149,397
General and administrative and other costs .....	1,213,513	(588,316) (3)	625,197
Depreciation, depletion and amortization .....	1,920,869	(960,799) (1)	960,070
Exploration, and other activities .....	52,798	(47,991) (1)	4,807
Taxes, other than income .....	—	—	—
Interest expense .....	4,598	(4,598)	—
	<u>10,537,099</u>	<u>(3,182,523)</u>	<u>7,354,576</u>
Income (loss) before income taxes .....	(313,707)	(55,123)	(258,584)
Credit for income taxes .....	(159,870)	(133,455) (4)	(26,415)
Net income (loss) .....	<u>\$ (153,837)</u>	<u>\$ 78,332</u>	<u>\$ (232,169)</u>
Net income (loss) per share .....	<u>\$ (.03)</u>	<u>\$ .03 (5)</u>	<u>\$ (.09)</u>

	Six Months Ended June 30, 1986		
	Historical	Pro Forma Adjustments Dr. (Cr.)	Pro Forma
<b>REVENUES</b>			
Oil and gas sales, net .....	\$1,905,640	\$ 875,972 (1)	\$1,029,668
Well servicing .....	1,349,283	—	1,349,283
Interest income .....	53,117	—	53,117
Other income .....	140,987	62,135 (2)	78,852
	<u>3,449,027</u>	<u>938,107</u>	<u>2,510,920</u>
<b>COSTS AND EXPENSES</b>			
Operating expenses — Oil and gas .....	1,474,449	(800,824) (1)	673,625
Operating expenses — Well servicing .....	1,322,800	—	1,322,800
General and administrative and other costs .....	478,915	(128,357) (3)	350,558
Depreciation, depletion and amortization .....	1,128,159	(523,296) (1)	604,863
Exploration, and other activities .....	—	—	—
Taxes, other than income .....	148,906	(117,729) (1)	31,177
Interest expense .....	12,822	(1,414)	11,408
	<u>4,566,051</u>	<u>(1,571,620)</u>	<u>2,994,431</u>
Loss before income taxes .....	(1,117,024)	(633,513)	(483,511)
Credit for income taxes .....	(356,058)	(195,334) (4)	(160,724)
Net loss .....	<u>\$ (760,966)</u>	<u>\$ (438,179)</u>	<u>\$ (322,787)</u>
Net loss per share .....	<u>\$ (.15)</u>	<u>\$ (.14) (5)</u>	<u>\$ (.13)</u>



## **PYRAMID OIL COMPANY**

### **NOTES TO PRO FORMA STATEMENT OF OPERATIONS**

**(Unaudited)**

- (1) The transactions contemplated by the Plan of Reorganization include the transfer of certain oil and gas properties, drilling equipment, and other fixed assets to the Splitoff Company. The reductions to the various revenue and expense categories included in the Pro Forma Adjustments are those which would have resulted had the transfer of the property and equipment to which they are associated been effected on January 1, 1985.
- (2) The reduction in Other Income would be due primarily to the loss of rental income and property tax refunds which would result from the transfer of associated real properties to Splitoff Company as contemplated by the Plan of Reorganization if the transfer had been effected on January 1, 1985.
- (3) General and administrative and other costs would be decreased had the transactions contemplated by the Plan of Reorganization been effected on January 1, 1985. The decrease in these costs to the Company would have resulted from the transfer of operating assets to the Splitoff Company thereby reducing the administration costs to the Company. See "Description of the Agreement." The amount allocated to the Splitoff Company is based on the amount of general and administrative costs incurred in the Company's oil and gas division, proportionate to the amount of properties transferred.
- (4) The reduction in the credit for income taxes to the Company is based on the transfer of tax attributes specifically related to properties proposed to be transferred to the Splitoff Company pursuant to the Plan of Reorganization as if such transfer had been effected January 1, 1985.
- (5) The net (loss) income per share computed from the net (loss) income in the Pro Forma adjustments column represents the income per share which would have accrued to the Exchanging Shareholders had the transactions contemplated by the Plan of Reorganization been effected on January 1, 1985. The income per share was based on the 2,574,470 shares to be exchanged. See "Summary of the Proposed Transaction."

# PYRAMID OIL COMPANY

## PRO FORMA STATEMENT OF CHANGES IN FINANCIAL POSITION (Unaudited)

The following includes the consolidated statements of changes in financial position for the Company and the pro forma statements of changes in financial position of the Company for the year ended December 31, 1985 and the six months ended June 30, 1986. The pro forma column shows the changes in financial position of the Company as if the transactions contemplated by the Plan of Reorganization had been effected on January 1, 1985. See "Description of the Agreement — Properties to be Transferred." The pro forma statement of changes in financial position should be read in conjunction with other financial statements and related notes included elsewhere herein.

December 31, 1985			
	Historical	Pro Forma Adjustments Dr. (Cr.)	Pro Forma
<b>FUNDS PROVIDED:</b>			
Working capital provided by operations .....	\$ 1,767,032	\$(1,039,533) (1)	\$ 727,499
Decrease in property and equipment .....	34,985	(34,985)	—
Proceeds from sale of assets .....	—	3,825	3,825
Total funds provided .....	<u>1,802,017</u>	<u>(1,070,693)</u>	<u>731,324</u>
<b>FUNDS USED:</b>			
Additions to property and equipment .....	2,074,408	(634,756) (2)	1,439,652
Decrease in long-term debt .....	27,300	(27,300)	—
Increase (decrease) in other assets .....	3,668	4,297	7,965
Increase (decrease) in deferred taxes .....	114,492	(563,503) (3)	(449,011)
Total funds used .....	<u>2,219,868</u>	<u>(1,221,262)</u>	<u>998,606</u>
Increase (decrease) in working capital .....	<u>\$ (417,851)</u>	<u>\$ 150,569</u>	<u>\$ (267,282)</u>
<b>CHANGES IN ELEMENTS OF WORKING CAPITAL:</b>			
Increase (decrease) in current assets:			
Time deposits .....	\$ (304,519)	\$ 250,000 (4)	\$ (54,519)
Other current assets .....	(551,619)	657,272 (4)	105,653
	<u>(856,138)</u>	<u>907,272</u>	<u>51,134</u>
Increase (decrease) in current liabilities:			
Current liabilities .....	438,287	(756,703) (4)	(318,416)
Increase (decrease) in working capital .....	<u>\$ (417,851)</u>	<u>\$ 150,569</u>	<u>\$ (267,282)</u>
June 30, 1986			
	Historical	Pro Forma Adjustments Dr. (Cr.)	Pro Forma
<b>FUNDS PROVIDED:</b>			
Working capital provided by operations .....	\$ 370,002	\$(87,928) (5)	\$ 282,074
Proceeds from sale of assets .....	3,200	—	3,200
Total funds provided .....	<u>373,202</u>	<u>(87,928)</u>	<u>285,274</u>
<b>FUNDS USED:</b>			
Additions to property and equipment .....	170,204	(103,590) (6)	66,614
(Increase) decrease in long-term debt .....	(180,595)	(11,405)	(192,000)
Increase (decrease) in other assets .....	(1,540)	(720)	(2,260)
Decrease in deferred taxes .....	381,939	(221,215) (7)	160,724
Total funds used .....	<u>370,008</u>	<u>(336,930)</u>	<u>33,078</u>
Increase (decrease) in working capital .....	<u>\$ 3,194</u>	<u>\$ 249,002</u>	<u>\$ 252,196</u>
<b>CHANGES IN ELEMENTS OF WORKING CAPITAL:</b>			
Increase (decrease) in current assets:			
Time deposits .....	\$ (75,000)	\$ —	\$ (75,000)
Other current assets .....	(112,405)	279,610 (8)	167,205
	<u>(187,405)</u>	<u>279,610</u>	<u>92,205</u>
Increase (decrease) in current liabilities:			
Current liabilities .....	190,599	(30,608) (8)	159,991
Increase (decrease) in working capital .....	<u>\$ 3,194</u>	<u>\$ 249,002</u>	<u>\$ 252,196</u>

(Footnotes on following page)

## PYRAMID OIL COMPANY

### NOTES TO PRO FORMA STATEMENT OF CHANGES IN FINANCIAL POSITION

(Unaudited)

- (1) Working capital provided by operations would have decreased had the transactions contemplated by the Plan of Reorganization been effected on January 1, 1985 as the properties proposed to be transferred to Splitoff Company pursuant to the Plan of Reorganization generated net working capital for the year ending December 31, 1985.
- (2) Additions to property and equipment would have decreased as a use of funds had the transactions contemplated by the Plan of Reorganization been effected on January 1, 1985 as a portion of the additions to property and equipment for the year ending December 31, 1985 were directly related to properties to be transferred to Splitoff Company pursuant to the Plan of Reorganization.
- (3) Deferred taxes would have decreased for the year ending December 31, 1985 had the transactions contemplated by the Plan of Reorganization been effected on January 1, 1985 due to the loss of availability of certain tax attributes directly related to properties proposed to be transferred to Splitoff Company pursuant to the Plan of Reorganization.
- (4) Pursuant to the Plan of Reorganization certain assets and liabilities would be transferred to Splitoff Company. See "Summary of the Proposed Transaction." Had the transactions contemplated by the Plan of Reorganization been effected on January 1, 1985, certain elements of working capital would have been transferred including, but not limited to, cash, accounts receivable, inventory, accounts payable, and other accrued liabilities. The reductions shown above represent the changes in these elements of working capital for the year ending December 31, 1985.
- (5) Working capital provided by operations would have decreased had the transactions contemplated by the Plan of Reorganization been effected on January 1, 1985 as the properties proposed to be transferred to Splitoff Company pursuant to this plan generated net working capital for the six months ending June 30, 1986.
- (6) Additions to property and equipment would have decreased as a use of funds had the transactions contemplated by the Plan of Reorganization been effected on January 1, 1985 as a portion of the additions to property and equipment for the six months ending June 30, 1986 were directly related to properties to be transferred to Splitoff Company pursuant to the Plan of Reorganization.
- (7) Deferred taxes would have decreased for the six months ending June 30, 1986 had the transactions contemplated by the Plan of Reorganization been effected on January 1, 1985 due to the loss of availability of certain tax attributes directly related to properties proposed to be transferred to Splitoff Company pursuant to the Plan of Reorganization.
- (8) Pursuant to the Plan of Reorganization certain assets and liabilities would be transferred to Splitoff Company. See "Summary of the Proposed Transaction." Had the transactions contemplated by the Plan of Reorganization been effected on January 1, 1985, certain elements of working capital would have been transferred including, but not limited to, cash, accounts receivable, inventory, accounts payable, and other accrued liabilities. The reductions shown above represent the changes in these elements of working capital for the six months ending June 30, 1986.

## DESCRIPTION OF THE AGREEMENT

The terms of the Plan of Reorganization are contained in the Agreement and Plan of Reorganization and Corporate Separation among the Company and the Exchanging Shareholders, dated as of December 31, 1985, a copy of which is attached hereto as Exhibit 2. A copy of the Plan of Reorganization, including exhibits, is also on file with the Securities and Exchange Commission in Washington, D.C., and is available without charge to the Company's shareholders upon request of the Company's Secretary. The statements contained herein and references thereto are qualified by and made subject to the text of the Plan of Reorganization.

After arms-length negotiations, the Company announced in January of 1986 that an agreement had been reached, whereby Company shareholders Julian I. Hathaway, the Richard F. Hathaway and Nadine Hathaway Trust dated February 18, 1984, Nadine Hathaway, Trustee and members of the Hathaway families would exchange all of their shares of the Company's Common Stock for all of the capital stock of the Company's wholly owned subsidiary, Splitoff Oil Company, which holds a corresponding percentage of the Company's assets and related liabilities.

The Plan of Reorganization includes two interdependent steps, each of which must occur prior to or at Closing, which is to occur not later than September 30, 1986, unless extended by mutual consent of the parties. The Company will complete the first step, namely the transfer of the assets and liabilities specified in the Plan of Reorganization to Splitoff Company prior to Closing. These assets principally include developed and undeveloped oil, gas and other mineral lease acreage. See "Description of the Agreement — Properties to be Transferred" for further information with respect to the assets to be transferred by the Company and those to be retained by the Company.

As the second step of the transaction, the Company will transfer to the Exchanging Shareholders, at the Closing, all of the shares of the Common Stock of Splitoff Company, a wholly owned subsidiary of the Company. In exchange therefor, the Exchanging Shareholders will transfer to the Company all of their common stock of the Company, which shall be cancelled and become authorized but not issued on the Company's books of record. Thereafter, the Exchanging Shareholders will be the record and beneficial owner of all the outstanding capital stock of Splitoff Company. Pursuant to the Plan of Reorganization, the Exchanging Shareholders have agreed not to acquire any Common Stock of the Company either directly or beneficially for a period of ten years following the Closing.

### Exchanging Shareholders

The following table identifies the Exchanging Shareholders and presents the number of shares of the Company's Common Stock each held as of December 31, 1985:

<u>Name</u>	<u>Number of Shares of Company Common Stock Owned</u>
Julian I. Hathaway .....	1,214,300
The Richard F. Hathaway and Nadine Hathaway Trust dated February 18, 1984, Nadine Hathaway, Trustee ..	1,132,335
Richard F. Hathaway II .....	30,250
Richard F. Hathaway III .....	1,950
Sherry Nadine Hathaway .....	1,950
William A. Hathaway .....	18,950
Remy A. Hathaway .....	1,950
Aaron Bowe Hathaway .....	1,950
Loline Hathaway Kundtz .....	18,250
Patrick Kundtz .....	1,950
Roberta Lynn Kundtz .....	1,950

<u>Name</u>	<u>Number of Shares of Company Common Stock Owned</u>
Francine Rippy .....	30,250
Sara L. Rippy .....	1,950
Jesse Louis Hathaway .....	1,950
Val George Ashton, Jr. ....	1,950
Mario Armando Rafael Diaz .....	1,700
Helen M. Hathaway .....	24,035
J. Terrill Hathaway .....	32,900
Kathryn L. Weber .....	22,000
Margaret J. Park .....	18,200
Jesse R. Hathaway .....	9,250
Calway Corp. ....	4,500
Total shares to be exchanged .....	<u>2,574,470</u>

### **Properties to be Transferred**

In negotiating the Plan of Reorganization, it was the intention of the parties that the properties and related liabilities of the Company transferred to Splitoff Company would equal the Exchanging Shareholder's proportionate ownership of the Company. The Exchange Percentage was determined to be 50.76% which is the percentage obtained by dividing the number of shares of the Company's Common Stock owned by the Exchanging Shareholders by the number of shares of the Company's Common Stock outstanding on December 31, 1985.

The Company generally groups its oil and gas producing activities into geographically defined operating units. In selecting properties to be transferred to Splitoff Company, the parties, whenever possible, transferred entire operating units to Splitoff Company because the oil and gas wells in a particular region often use common equipment, pipelines and utilities, therefore it would be difficult and expensive to separate for transfer individual oil and gas leases. Keeping the need to maintain operating unit integrity in mind, the parties negotiated at arms-length as to which properties, if transferred would approximate the Exchange Percentage. Although the Exchanging Shareholders favor a plan of exploration of undeveloped and semi-developed properties, the property to be transferred to Splitoff Company necessarily includes properties in all stages of exploration and development because the Company does not have an inventory of undeveloped properties equal to the Exchange Percentage.

The Plan of Reorganization contemplates that the Company shall transfer to Splitoff Company, prior to the Closing, certain of its developed and undeveloped oil and gas properties located in the following states and counties therein:

#### **California**

Los Angeles County — 8 Leases  
Orange County — 5 Leases

#### **Colorado**

La Plata County — 29 Leases

#### **Texas**

Palo Pinto County — 1 Lease  
Young County — 9 Leases  
Wilson County — 7 Leases

Oklahoma

Osage County — 2 Leases

Kansas

Logan County — 2 Leases

Gove County — 6 Leases

Trego County — 4 Leases

Ness County — 2 Leases

Lane County — 4 Leases

Sheridan County — 2 Leases

Pennsylvania

Verango County — 1 Lease

The leases transferred in Colorado, Kansas and Santa Fe Springs, California include the ancillary equipment, inventory and materials considered necessary and appurtenant to the oil and gas operations conducted on the transferred leases.

Pursuant to the Plan of Reorganization, the Company will transfer the following parcels of real property to Splitoff Company:

- Seven acres of developed and vacant land located in Santa Fe Springs, California;
- Four lots located in the Richfield Garden Plat, Orange County, California;
- Six lots located in the Windemere Tract of the City of Signal Hill, California; and
- Approximately 17 lots located in the Marvel Additions, La Plata County, Colorado.

For further information concerning the transfer of properties to Splitoff Company see the Unaudited Pro Forma Financial Statements and notes thereto contained herein.

Upon the Closing, the Company shall not participate in, nor hold any share in the leases transferred or have any financial or operational interest in Splitoff Company. Certain of the leases transferred in La Plata County, Colorado cover the rights from the level of the ground to the base of the geological feature known as the Morrison formation and include an undivided five percent (5%) overriding royalty in favor of the Davis Oil Company for all production from below the base of the Morrison formation. The Plan of Reorganization specifies that Splitoff Company will take all assets transferred to it subject to all burdens, obligations and commitments.

The values assigned to the various properties were determined in arms-length negotiations between the parties and as to oil and gas properties, are based in part on reserve studies performed by Babson and Sheppard, an independent oil and gas consulting firm, in connection with the Company's preparation of its Annual Report to Shareholders and Annual Report on Form 10-K. Determination of recoverable oil and gas is necessarily based upon the judgment of the party making the determination, and future production of oil and gas over the life of a particular lease may prove to be greater or less than the quantities estimated. Estimates of future oil and gas production from any lease are necessarily affected by the results of future drilling operations. In addition, prices in effect at the time of evaluation may change depending upon many factors including contractual arrangements, the impact of governmental regulation, supply and demand in the marketplace and future price changes that may not be uniform from one producing lease to another. Consequently, as a result of conditions and events occurring after the Closing, the ratio of the value on that date of properties to be transferred by the Company to Splitoff Company, to the properties retained by it will not remain constant.

In rendering their opinion as to the fairness of the Plan of Reorganization to the shareholders of the Company from a financial point of view, PNA considered the impact of declining oil and gas prices and concluded that the cash flow from oil and gas sales could be reduced significantly for

both the Company and Splitoff Company. PNA concluded that the consequences of the recent decline in oil and gas prices will be shared ratably by both companies.

### **Properties to be Retained**

The Company will retain its oil well service division located in Taft, California, oil and gas properties in Fresno, Northern Los Angeles, Kern and Santa Barbara Counties, California, Idaho, Nevada, New York and Wyoming. In negotiating the Plan of Reorganization, the Company determined that it would keep the well servicing division intact and use it to service the Company's properties in the Kern County area as well as continuing to provide well servicing to outside customers. It is anticipated that subsequent to the Closing, the Company's corporate offices will be relocated to the Bakersfield, California area. See the Unaudited Pro Forma Financial Statements and notes thereto for further information about the properties to be retained by the Company.

### **Conditions to Consummation of the Plan of Reorganization**

The obligations of the parties to consummate the Plan of Reorganization are dependent upon the future satisfaction of several conditions.

The Plan of Reorganization is conditioned upon receipt from the Internal Revenue Service of tax rulings to the effect that the Plan of Reorganization constitutes a tax-free reorganization under the Internal Revenue Code of 1954, as amended, and that no gain or loss will be recognized to the parties by virtue of the transactions contemplated by the Plan of Reorganization. Rulings have been requested to this effect. See "Federal Income Tax Consequences".

The Plan of Reorganization provides that it may not be consummated unless it has been approved by an affirmative vote by a majority of the Company's outstanding shares. In light of the Exchanging Shareholders' personal interest in the Plan of Reorganization, they have agreed that their votes shall be cast for, against and abstaining by the Proxy Agent in the same proportion as the votes cast by non-exchanging shareholders.

Other conditions to consummation of the Plan of Reorganization which have already been satisfied are formal approval by the Company's Board of Directors and receipt of the opinion of the independent investment analyst (PNA).

It is also a condition to Closing that the Closing occur not later than September 30, 1986, unless such date is extended by written agreement of the parties. The parties have agreed to use their best efforts to cause these conditions to be satisfied. However, either party may waive in writing one or more of the conditions to obligations under the Plan of Reorganization.

If the Plan of Reorganization is not approved by the Company's shareholders, the Company will conduct its business on the same basis as it has in the past. The Exchanging Shareholders will remain shareholders of the Company and the property and liabilities that would have otherwise been transferred to Splitoff Company prior to the Closing will continue to be owned by the Company.

### **Indemnification**

The Company has agreed to indemnify and hold the Exchanging Shareholders harmless against claims and liabilities which may be asserted against Splitoff Company or the Exchanging Shareholders which arise from a breach of any of the Company's warranties or representations contained in the Plan of Reorganization or a letter addressed to the Exchanging Shareholders ("Letter of Disclosure"), if such a letter is provided.

The Exchanging Shareholders have agreed to indemnify and hold the Company harmless against claims and liabilities which may be asserted against the Company which arise from the assets or liabilities transferred to Splitoff Company subsequent to December 31, 1985, the breach of



any of the Exchanging Shareholders' warranties or representations contained in the Plan of Reorganization, or Letter of Disclosure addressed to the Company, if such a letter is provided.

#### **Effect on Employee Retirement Plan**

The Plan of Reorganization contemplates that in accordance with applicable law and subject to necessary regulatory approvals, an appropriate portion of the assets of the Company's Retirement Plan will be transferred into a new retirement plan, created for the benefit of Splitoff Company's employees formerly covered by the Company's Retirement Plan. The new Splitoff Company plan will assume liability for all accrued rights and benefits of Company employees who become employees of Splitoff Company upon the Closing. The transfer of assets to the Splitoff Company plan is not expected to result in any significant additional costs to the Company or significantly increased contributions by the Company to its Retirement Plan.

#### **Expenses Incident to the Transaction**

The Company will bear the cost of professional fees, disbursements and charges incurred by it in connection with the Plan of Reorganization. Such fees, disbursements and charges include, among others, legal fees of counsel retained by the Company in connection with the preparation of the Plan of Reorganization and proxy statement, accounting fees of the Company's independent certified public accountants for preparation of financial statements and special analysis, fees paid to PNA for its opinion as to the fairness of the Plan of Reorganization to the Company's non-exchanging shareholders from a financial point of view, costs of printing and distributing the Company's proxy statement, and fees and expenses incurred in connection with obtaining a ruling from the Internal Revenue Service.

#### **FEDERAL INCOME TAX CONSEQUENCES**

The Company has filed a request with the Internal Revenue Service for rulings with respect to the federal income tax consequences of the Plan of Reorganization, and consummation of the transactions contemplated therein are conditioned on the receipt of satisfactory rulings. The rulings requested are to the effect, in part, as follows:

1. No gain or loss will be recognized by the parties by reason of the exchange by the Company of all of the shares of its wholly owned subsidiary, Splitoff Company, for all of the Exchanging Shareholders' shares of the Company's Common Stock.
2. There will be no recapture of depreciation or intangible development costs by the Company on the transfer of assets to Splitoff Company.
3. Splitoff Company's basis for federal income tax purposes in the assets received from the Company will be the same as the Company's basis in those assets.
4. The Exchanging Shareholders' basis in the capital stock of Splitoff Company will be equal to their basis in the Company's Common Stock as of December 31, 1985.

The management of the Company does not expect any significant state or local income tax consequences.

#### **SELECTED OPERATIONAL AND FINANCIAL INFORMATION**

##### **Production Data**

The following table sets forth the Company's production volumes and average sales price and production cost per barrel for such production during the five years ended December 31, 1985.

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
Production:					
Crude Oil (BBLs) .....	270,000	259,000	255,000	257,500	280,900
Natural gas (MCF) .....	114,400	117,000	111,000	168,000	97,000
Average sales price:					
Crude oil (Per BBL) .....	\$27.85	\$25.82	\$24.50	\$23.69	\$23.58
Natural gas (Per MCF) .....	\$ 2.41	\$ 2.35	\$ 3.20	\$ 3.29	\$ 2.92
Production cost (Per Barrel) .....	\$ 7.22	\$ 8.26	\$ 9.01	\$ 9.09	\$10.76

#### Reserve Information

The Company engaged Babson and Sheppard, independent petroleum engineers, to prepare a study of the Company's proved oil and gas reserves as of December 31, 1985 in conjunction with the preparation of the Company's Annual Report to Shareholders and Annual Report on Form 10-K. See the Supplemental Information (Unaudited) Oil and Gas Producing Activities in the notes to the Company's 1985 consolidated financial statements for additional information regarding such reserves. The Company emphasizes that reserve estimates are inherently imprecise due to the fact that the basis for such estimates vary significantly as further information becomes available.

The petroleum engineer's report was based on property ownership as of December 31, 1985 and was prepared in conformity with Securities and Exchange Commission guidelines requiring the use of prices and costs in effect at that date. Since December 31, 1985 there has been a sharp decrease in crude oil prices. The lower prices could have a material impact on the value of the reserves of the Company. See "Selected Operational and Financial Information — Standardized Measure of Discounted Estimated Future Net Cash Flow."

Additionally, a discount rate of 10% was used in computing the present value of future net revenues from proved oil and gas reserves.

Below are the quantities of proved developed oil and gas reserves of the Company as of December 31, 1985, presented on a historical basis and the quantities of proved developed oil and gas reserves as of December 31, 1985 and June 30, 1986 as if the transactions contemplated by the Plan of Reorganization had been consummated on December 31, 1985:

	<u>December 31, 1985</u>			<u>June 30, 1986</u>	
	<u>Historical</u>	<u>The Company</u>	<u>Splitoff Company</u>	<u>The Company</u>	<u>Splitoff Company</u>
Total Proved Developed:					
Oil (BBLs) .....	<u>1,727,000</u>	<u>854,000</u>	<u>873,000</u>	<u>751,400</u>	<u>664,000</u>
Gas (MCF) .....	<u>755,000</u>	<u>585,000</u>	<u>170,000</u>	<u>573,000</u>	<u>161,000</u>

The changes in quantities of proved developed oil and gas reserves of the Company and of Splitoff Company from December 31, 1985 to June 30, 1986 are shown below:

	<u>The Company</u>		<u>Splitoff Company</u>	
	<u>Oil (BBLs)</u>	<u>Gas (MCF)</u>	<u>Oil (BBLs)</u>	<u>Gas (MCF)</u>
New Reserves .....	65,000 (1)	—	—	—
Uneconomical Properties .....	(110,000) (2)	—	(158,600) (2)	—
Production .....	(57,600)	(12,000)	(50,400)	(9,000)
	<u>(102,600)</u>	<u>(12,000)</u>	<u>(209,000)</u>	<u>(9,000)</u>

- (1) Management has determined that increased recovery in existing properties will be realized due to increased efficiency of certain wells. This information is based solely on management's analysis and is not based on reports of independent consulting petroleum engineers.
- (2) Management has determined based on current information that certain properties have become uneconomical due to a drop in oil prices. This information is based solely on management's analysis and is not based on reports of independent consulting petroleum engineers.

The historical costs incurred by the Company, both capitalized and expensed, of oil and gas property acquisition, exploration and development for the year ended December 31, 1985 are shown below. The pro forma amounts represent the Company's costs as if the transactions contemplated by the Plan of Reorganization had been effected January 1, 1985.

	<u>Historical</u>	<u>Pro Forma</u>
Property Acquisition Costs .....	\$ 59,400	\$ —
Exploration Costs .....	\$ 76,200	\$ 4,800
Development Costs .....	\$ 1,469,000	\$ 993,500

The historical capitalized costs pertaining to the Company's oil and gas producing activities at December 31, 1985 are shown below. The pro forma amounts shown represent the Company's aggregate capitalized costs after giving effect to the transactions contemplated by the Plan of Reorganization.

	<u>Historical</u>	<u>Pro Forma</u>
Proved properties .....	\$ 19,177,700	\$ 8,753,600
Unproved properties .....	297,100	185,000
Accumulated depletion Depreciation, amortization and valuation allowances .....	(11,808,300)	(5,389,800)
	<u>\$ 7,666,500</u>	<u>\$ 3,548,800</u>

The historical and pro forma results of operations for oil and gas producing activities for the year ended December 31, 1985 are shown below. The pro forma amounts represent the results of the Company's oil and gas activities as if the transactions contemplated by the Plan of Reorganization had occurred January 1, 1985:

	<u>Historical</u>	<u>Pro Forma</u>
Net Sales .....	\$5,594,800	\$2,585,300
Production Costs .....	4,059,800	2,051,700
Exploration Costs .....	52,800	4,800
Depreciation, Depletion and Amortization .....	<u>1,694,800</u>	<u>849,000</u>
Gross Profit .....	(212,600)	(320,200)
Income Tax expense .....	<u>(97,800)</u>	<u>(147,300)</u>
Results of Operations From Production Activities .....	<u>\$ (114,800)</u>	<u>\$ (172,900)</u>

### Standardized Measure of Discounted Estimated Future Net Cash Flow

Below are the standardized measure of discounted future net cash flows relating to proved oil and gas reserves at December 31, 1985, presented on a historical basis and the standardized measure of discounted estimated future net cash flow at December 31, 1985 and June 30, 1986 that the Company and Splitoff Company would have had if the transactions contemplated by the Plan of Reorganization been consummated on December 31, 1985:

	December 31, 1985			June 30, 1986	
	Historical	The Company	Splitoff Company	The Company	Splitoff Company
Future Cash Inflows .....	\$44,060,000	\$21,693,300(1)	\$22,366,700(1)	\$10,697,400(1)	\$ 8,949,500(1)
Future Production and Development Costs .....	24,639,000	11,623,900(2)	13,015,100(2)	7,775,100(2)	6,909,000(2)
Future Income Tax Expense .....	5,826,000	3,020,900(3)	2,805,100(3)	876,700(3)	612,200(3)
Future Net Cash Flows .....	13,595,000	7,048,500(4)	6,546,500(4)	2,045,600(4)	1,428,300(4)
10% Annual Discount .....	5,511,000	3,404,600(5)	2,106,400(5)	991,000(5)	459,000(5)
Standardized Measure of Future Net Cash Flows .....	<u>\$ 8,084,000</u>	<u>\$ 3,643,900(6)</u>	<u>\$ 4,440,100(6)</u>	<u>\$ 1,054,600(6)</u>	<u>\$ 969,300(6)</u>

- (1) The December 31, 1985 allocations of future cash inflows to the Company and to Splitoff Company are based on properties to be retained or transferred to Splitoff by the Company if the Plan of Reorganization is effected. Future cash inflows relative to these properties at December 31, 1985 are based on reports of independent consulting petroleum engineers. The future cash inflows of the Company and of Splitoff Company at June 30, 1986 were adjusted using an average 45% discount rate applied to the December 31, 1985 balance to reflect decreases in the price of oil thru June 30, 1986, and applied only to those properties which were determined to have economically recoverable reserves using June 30 prices. The discount rate was determined by management as a fair representation based on current prevailing market conditions. The June 30, 1986 amounts are not based on any consulting petroleum engineers report, but rather on management's best estimates considering current conditions in the oil and gas industry.
- (2) The December 31, 1985 allocation of future production and development costs to the Company and to Splitoff Company are based on specific properties to be retained or transferred to Splitoff by the Company if the Plan of Reorganization is effected. Future production and development costs relative to these properties at December 31, 1985 are based on reports of independent consulting petroleum engineers. The future production and development costs at June 30, 1986 were adjusted using an average 20% discount rate applied to the December 31, 1985 balance. The discount rate was determined by management as a fair representation of production costs and have been applied to properties which management has determined to have economically recoverable reserves as of June 30, 1986. The June 30th production and development costs were then further revised to include only properties which are economically recoverable based on management's revised representation of current changes in prices and costs, and were not based on any consulting petroleum engineers report.
- (3) The future income tax expense was determined using a 30% tax rate on the future net cash flows.
- (4) The future net cash flows is the result of future cash inflows less future production and development costs and future income tax expense adjusted at a 30% tax rate.
- (5) The 10% annual discount amount is the result of future net cash flows discounted at an annual rate of 10% based on the estimated remaining productive lives of the properties to be retained by the Company and transferred to Splitoff Company if the Plan of Reorganization is effected.
- (6) The standardized measure of future net cash flows is the result of future net cash flows adjusted for the 10% annual discount factor.

The changes in the standardized measure of discounted cash flows for the Company and for Splitoff Company from December 31, 1985 to June 30, 1986 are shown below as if the transactions contemplated by the Plan of Reorganization had been consummated on December 31, 1985:

	<u>The Company</u>	<u>Splitoff Company</u>
Price Reduction .....	\$(8,752,500) (1)	\$(7,322,300) (1)
Cost Reduction .....	1,943,800 (2)	1,727,200 (2)
Reduction in Economic Quantity .....	(338,400) (3)	(785,000) (3)
Increase in Reserves .....	995,000 (4)	—
Production .....	(995,000) (5)	(931,000) (5)
Net Changes in Income Taxes .....	2,144,200 (6)	2,192,900 (6)
	(5,002,900)	(5,118,200)
Reduction of Discount .....	2,413,600 (7)	1,647,400 (7)
Total Change .....	<u>\$(2,589,300)</u>	<u>\$(3,470,800)</u>

- (1) The price reduction has been determined by management based on current market prices as of June 30, 1986 as compared to market prices at December 31, 1985. The reduction was determined to average 45% of prices in effect at December 31, 1985. The price reduction was determined solely by management and was not based on reports of independent consulting petroleum engineers. It is the Company's policy to obtain reports of consulting petroleum engineers on an annual basis only.
- (2) The cost reduction has been determined by management based on its estimation of future reductions in cost which would result from existing market conditions. The reduction was determined to average 20% of costs which existed at December 31, 1985. The cost reduction was determined solely by management and was not based on reports of independent consulting petroleum engineers.
- (3) The reduction in economic reserves is due to management's determination that certain properties which were economically recoverable at December 31, 1985, are no longer economically recoverable based on the changes in market conditions which existed at June 30, 1986.
- (4) The increase in reserves is based on management's determination that through the application of more efficient recovery methods, the economically recoverable reserves of certain existing properties will be increased.
- (5) Production is based on actual recovery of reserves for the six months ending June 30, 1986.
- (6) Net changes in income taxes represents the anticipated reduction in income taxes which would result from reduction in income as a result of reduced cash inflows as described in the above footnotes. Income taxes have been allowed at an effective rate of 30%.
- (7) Reduction in discount is the result of changes to future cash inflows as described in the above footnotes. The change is computed at 10% over the average productive lives of the respective properties.

The Company's historical and pro forma principal changes in the standardized measure of discounted future net cash flows during the year ended December 31, 1985 are shown below. The pro forma amounts represent the changes after giving effect to the transactions contemplated by the Plan of Reorganization.

	<u>Historical</u>	<u>Pro Forma</u>
Extensions .....	\$ —	\$ —
Revisions of previous Estimates:		
Price Changes .....	(800,000)	(447,000)
Quantity Changes .....	(1,824,000)	(1,926,000)
Other, Net .....	(297,000)	(148,000)
Development Costs Incurred .....	1,469,000	993,000
Net Oil and Gas Sales .....	(2,389,000)	(922,000)
Accretion of Discount .....	1,399,000	697,000
Proved Developed Reserves (Present Value Before Taxes) .....	(2,442,000)	(1,753,000)
Net Changes in Income Taxes .....	733,000	525,900
Net Decrease .....	<u>\$ (1,709,000)</u>	<u>\$ (1,227,100)</u>

#### Acreage

The following table sets forth the gross and net producing acreage held by the Company at December 31, 1985 and the net acreage to be transferred to Splitoff Company and retained by the Company after giving effect to consummation of the transactions contemplated by the Plan of Reorganization:

<u>State</u>	<u>Acreage Held By the Company</u>		<u>Net Acreage To Be</u>	
	<u>Gross</u>	<u>Net</u>	<u>Transferred To Splitoff</u>	<u>Retained By the Company</u>
California .....	4,350	3,557	225	3,332
Colorado .....	5,500	4,675	4,675	—
Texas .....	15,804	10,273	10,273	—
Kansas .....	11,040	9,163	9,163	—
Pennsylvania .....	408	408	408	—
New York .....	12,246	4,082	—	4,082
Kentucky .....	65,579	18,195	18,195	—
New Mexico .....	4,200	2,000	2,000	—
Wyoming .....	6,850	343	—	343
Nevada .....	320	320	—	320
Idaho .....	640	640	—	640
Oklahoma .....	4,574	4,574	4,574	—
	<u>131,511</u>	<u>58,230</u>	<u>49,513</u>	<u>8,717</u>

The following table sets forth the gross and net unproved acreage held by the Company at December 31, 1985 and the net acreage to be transferred to Splitoff Company and retained by the Company after giving effect to the transactions contemplated by the Plan of Reorganization:

State	Acreage Held By the Company		Net Acreage To Be	
	Gross	Net	Transferred To Splitoff	Retained By the Company
New York .....	34,800	9,788	—	9,788
Kansas .....	6,560	5,740	5,740	—
Texas .....	1,649	1,649	1,649	—
	<u>43,009</u>	<u>17,177</u>	<u>7,389</u>	<u>9,788</u>

### DRILLING ACTIVITY AND PRODUCING WELLS

The following table summarizes the drilling activity of the Company during the year ended December 31, 1985:

	Gross Wells	Net Wells
Exploratory —		
Productive .....	—	—
Non-productive .....	1	1
In process at year end .....	1	1
Development —		
Productive .....	14	13
Non-productive .....	—	—
In process at year end .....	3	3
	<u>19</u>	<u>18</u>

The following table sets forth the gross and net oil and gas wells held by the Company at December 31, 1985 and the gross and net oil and gas wells to be transferred to Splitoff Company and retained by the Company after giving effect to the transactions contemplated by the Plan of Reorganization.

	Total		Transferred to Splitoff Company		Retained By the Company	
	Gross	Net	Gross	Net	Gross	Net
Oil Wells .....	205	191.5	93	82.5	112	109.0
Gas Wells .....	38	21.5	16	16.0	22	5.5
	<u>243</u>	<u>213.0</u>	<u>109</u>	<u>98.5</u>	<u>134</u>	<u>114.5</u>

### Reserves Reported to Other Agencies

During the last fiscal year the Company filed with the Department of Energy Form EIA23. The estimate of total proved net oil and gas reserves were 2,021,000 BBLS and 180,000 MCF, respectively. Differences exist between these figures and reserves reported in filings with the Securities and Exchange Commission in that the figures reported to the Department of Energy are adjusted for properties for which the Company is not the operator of the lease.



### CERTAIN UNAUDITED COMPARATIVE DATA

The following table sets forth certain data at December 31, 1985, and for the year then ended, pertaining to the Company as historically reported and on a pro forma basis, assuming the transactions contemplated by the Plan of Reorganization had been consummated on January 1, 1985. See "Pyramid Pro Forma Statement of Operations" and "Pyramid Pro Forma Balance Sheet" and related notes thereto contained elsewhere herein for a discussion of the assumptions used in preparing the financial data below on a pro forma basis.

	Year Ended December 31, 1985	
	Historical	Pro Forma
<b>Financial Data:</b>		
Revenues .....	\$10,223,392	\$7,095,992
Net loss .....	\$ (153,837)	\$ (232,169)
<b>Per share:</b>		
Net loss .....	\$ (.03)	\$ (.09)
Dividends .....	—	—
Book value (1) .....	\$ 2.25	\$ 3.07
Total assets (1) .....	\$13,458,155	\$9,375,048
Stockholders' equity .....	\$11,435,654	\$7,683,838
<b>Production Data:</b>		
Crude oil (Barrels) .....	281,000	150,700
Natural gas (MCF) .....	97,000	39,700

(1) At the end of period and assumes the transactions contemplated by the Plan of Reorganization had been effected on January 1, 1985.

### Effects of Plan of Reorganization

Upon the consummation of the transactions contemplated by the Plan of Reorganization and based on the number of shares of the common stock of the Company outstanding on December 31, 1985:

(1) The Company's issued and outstanding common stock will be reduced from 5,071,650 shares to 2,497,180 shares.

(2) Splitoff Company will not hold any of the Company's common stock.

(3) The percentage of beneficial ownership of the common stock of the Company held by all directors and officers of the Company as a group will decrease from approximately 27.73% to 8.12% if the proposed amendment to Company's By-Laws is approved and to 13.17% if the proposed amendment to the Company's By-Laws is defeated.

### MARKET PRICES

The common stock of the Company is traded on the over-the-counter market. The following are asked and bid quotations for each quarter of 1985 and 1984:

	<u>Ask</u>	<u>Bid</u>
<b>1985</b>		
First Quarter .....	5½	4¾
Second Quarter .....	3¾	3
Third Quarter .....	3½	3
Fourth Quarter .....	3½	3
<b>1984</b>		
First Quarter .....	7¾	7¼
Second Quarter .....	9	8½
Third Quarter .....	8½	7¾
Fourth Quarter .....	9	8¼

The closing Bid and Ask price of the Company's common stock on July 21, 1986, was 2 and 2¾ respectively.

## AMENDMENT TO THE COMPANY'S BY-LAWS

As currently stated, the Company's By-Laws require a seven person board of directors, however the Company's Board of Directors has concluded that a seven person board of directors is too large in light of the Company's size, the difficulty of keeping all seven directorships filled and the anticipated changes in the Company's organization pursuant to the Plan of Reorganization. The Board of Directors believes that a five person board of directors will operate more efficiently and effectively and will still adequately represent the Company's shareholders. This amendment to the Company's By-Laws must be approved by a majority vote of the Company's shareholders.

If the proposed amendment to the Company's By-Laws reducing the number of individuals on the Company's Board of Directors from seven to five individuals is not approved by the Company's shareholders, then the Board of Directors will continue to have seven members. To provide for the orderly management of the Company in the event that the proposed amendment is not approved, the Board of Directors has nominated two individuals, Tommy Littlepage and John Hathaway, as candidates for election to the Company's Board of Directors who, if elected, would only serve in the event that the proposed amendment is not approved. See "Nominees for Election as Directors."

## NOMINEES FOR ELECTION AS DIRECTORS

Directors are to be elected at the Annual Meeting to serve until the next annual meeting and until their successors are elected and qualified. Unless authority to vote for directors is withheld in the proxy card, it is the intention of the persons named in the enclosed form of proxy (the "Proxy Agents") to vote for the election of the following five persons as directors: John H. Alexander, J. Ben Hathaway, T. H. Hunnewell, Jack W. Wood and Leon Zermeno. If the proposed amendment to the Company's By-Laws is not approved by the Company's shareholders, it is the intention of the Proxy Agents to vote for the election of Tommy Littlepage and John Hathaway as directors.

The Board of Directors has been informed that all nominees are willing to serve as directors, but if any of them should decline or be unable to act as a director, the proxy agents will vote for the election of another person or persons as they, in their discretion, may choose. The Board of Directors has no reason to believe any nominee will be unable or unwilling to serve.

The name, age, principal occupation for the last five years, selected biographical information, period of previous service as a director of the Company and the number of shares of stock of the Company owned on July 21, 1986 for each nominee are set forth below. The principal occupations listed refer to positions with the Company unless otherwise noted. The number of shares owned are those "beneficially owned", as determined under rules of the Securities and Exchange Commission, and the information is not necessarily indicative of beneficial ownership for any other purpose. Under such rules, beneficial ownership includes any shares as to which the director has sole or shared voting power or investment power pursuant to a discretionary account or similar arrangement.

The nominees for election as directors of the Company are as follows:

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Director Since</u>	<u>Officer Since</u>
J. Ben Hathaway	47	President and Director	1984	1986
John H. Alexander	38	Vice President and Director	1984	1986
H.T. Hunnewell	60	Director	1986	—
Jack W. Wood	61	Director	—	—
Leon Zermeno	57	Director	1973	—

There are two vacancies on the Company's Board of Directors. The Company's Board of Directors has approved a resolution calling for shareholder approval of an amendment to the Company's By-Laws reducing the size of the Company's Board of Directors from seven to five individuals. See "Amendment to the Company's By-Laws". However, to provide for the orderly

management of the Company in the event that the proposed amendment to the Company's By-Laws is not approved, the Board of Directors has nominated the following individuals to serve on the Company's Board of Directors if so elected and the proposed amendment to the Company's By-Laws is not approved:

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Director Since</u>	<u>Officer Since</u>
Tommy Littlepage	49	Director	—	—
John Hathaway	42	Director	—	—

Messrs. Littlepage and Hathaway have agreed to serve if elected and the proposed amendment to the Company's By-Laws is not approved by the Company's shareholders.

***J. Ben Hathaway***

Mr. Ben Hathaway is an independent oil and gas operator and President of Marlyn Company, an oil and gas production company located in Bakersfield, California. Mr. Ben Hathaway has been President of Marlyn Company since 1973. Mr. Ben Hathaway and John Hathaway are brothers and nephews of J. I. Hathaway.

***John H. Alexander***

Mr. Alexander is an independent oil operator and President of Alexander Oil Company, Newport Beach, California, an oil and gas production company. Mr. Alexander has been President of Alexander Oil Company since 1970.

***H. T. Hunnewell***

Mr. Hunnewell is the Vice President and Chief Executive Officer of Echo Production, Inc. Echo Production is an oil and gas exploration and production company. Mr. Hunnewell is also Vice President and General Manager of Twin Montana, Inc. an oil and gas exploration and production company. Mr. Hunnewell has been employed by Echo Production, Inc. since 1976 and Twin Montana, Inc. since 1968. Mr. Hunnewell serves on the Board of Directors of Buffton Corporation.

***Jack W. Wood***

Mr. Wood is President of La Bar Ensign, an oil and gas exploration company located in Ventura, California. Mr. Wood is also President of Ventura Realty Company, a real estate developer and royalty owner located in Ventura, California. Mr. Wood has held these positions since July, 1984. Mr. Wood was Chairman of the Board of the Company's Board of Directors from October, 1971 to July, 1984.

***Leon Zermeno***

Mr. Zermeno is the President of OST Trucking and OST Crane, which are all located in Ventura, California. These enterprises are both involved in the oil and gas industry. Mr. Zermeno has been President of these companies since 1962.

***Tommy Littlepage***

Mr. Littlepage is President of Tommy's Well Service, Inc. and Graham Acidizing Company. These enterprises are all involved in the oil and gas industry. Mr. Littlepage has been President of Tommy's Well Service, Inc. since 1959 and Graham Acidizing Company since 1979. Mr. Littlepage was a Director of the Company from July 10, 1984 until his resignation on December 31, 1984.

### **John Hathaway**

Mr. Hathaway is President of Causco West, Inc., located in Signal Hill, California. Causco West, Inc. sells and rents hydraulic equipment including equipment used in the construction of offshore facilities. Mr. Hathaway has been President of Causco West, Inc. since 1981. Mr. Hathaway and J. Ben Hathaway are brothers and nephews of J. I. Hathaway.

The following table sets forth certain information with respect to beneficial ownership of the Company's common stock by the Company's officers and nominees for election as directors and the officers of the Company's wholly-owned subsidiary, Splitoff Oil Company, as of July 21, 1986:

<u>Name and Title (1)</u>	<u>Shares Owned (2)</u>	<u>Percentage of Outstanding Common Stock (3)</u>
J. Ben Hathaway, Director, President	42,600 (4)	(5)
John H. Alexander, Director, Vice President	3,332	(5)
H. T. Hunnewell, Director	137,950 (6)	2.72%
Jack W. Woods, Director	10,914 (7)	(5)
Leon Zermeno, Director	8,000 (8)	(5)
Tommy Littlepage, Director	109,004	2.15%
John Hathaway, Director	17,000	(5)
Julian I. Hathaway, Vice President, Splitoff Oil Co.	1,214,300 (9)	23.94%

- (1) Title listed refers to the Company unless otherwise stated.
- (2) Amount reported by directors does not include shares held in the name of their spouse, children or relatives.
- (3) As a percentage of the 5,071,650 shares of common stock outstanding at July 21, 1986.
- (4) Mr. J. Ben Hathaway's holdings include 600 shares held as community property with his wife.
- (5) Less than 1% of common stock outstanding.
- (6) Mr. Hunnewell owns 25% of Twin Montana, Inc. which in turn owns 137,950 shares of the Company, which is 2.72% of the Company's outstanding common stock at July 21, 1986.
- (7) Mr. Wood's holdings include 6,000 shares held in joint tenancy with his wife.
- (8) Mr. Leon Zermeno's wife and children own, in the aggregate, 900 shares. Mr. Zermeno disclaims any beneficial interest in all such shares.
- (9) Mr. J. I. Hathaway's wife and children own, in the aggregate, 97,135 shares. Mr. Hathaway disclaims any beneficial interest in all such shares.

Shares of Company stock beneficially owned by all of the nominees for director of the Company and the officers of the Company and its wholly-owned subsidiary (10 persons) as a group beneficially own 1,153,496 shares of Company common stock as of July 21, 1986, representing 30.04% of the shares outstanding, including those reported above.

## COMMITTEES OF THE BOARD OF DIRECTORS

The entire Board of Directors serves as an Audit Committee which reviews the Company's financial and accounting organization, financial reporting and the reports of the independent public accountants. The Board of Directors held two meetings during the last fiscal year as the Audit Committee.

The entire Board of Directors serves as a Nominating Committee to recommend prospective Directors to fill vacancies that may arise from time to time and to propose individuals for election to the Company's Board by the Company's Shareholders. The Board of Directors will consider nominees recommended by shareholders. All shareholder communication regarding Director nominees should be directed to the Secretary of the Company at least 30 days prior to the date of the Annual Meeting of Shareholders and should include a description of the nominee's qualifications and pertinent experience for service on the Company's Board of Directors. The Board of Directors held two meetings during the last fiscal year as the Nominating Committee.

## DIRECTOR ATTENDANCE

The Company's Board of Directors met nine times during 1985. Ninety Eight percent of the Board members attended all meetings of the Board in 1985.

## EXECUTIVE COMPENSATION

Executive compensation during the year ended December 31, 1985, was as follows:

<u>Name</u>	<u>Capacities in Which Served</u>	<u>Cash Compensation</u>
LeRoy W. Wirz	President	\$ 42,000.00 (1)
Julian I. Hathaway	Vice President	72,723.60 (2) (4)
Richard F. Hathaway	Vice President	40,080.00 (3) (4)
W. Jean Diendorf	Secretary	32,262.00
All directors and officers as a group (10 persons including those named above)		\$206,065.60

- (1) Mr. Wirz joined the Company in May, 1985, at an annual salary of \$72,000. The amount reported herein is the actual compensation paid Mr. Wirz during 1985.
- (2) J. I. Hathaway and Emil Plegel (employees of the Company) own and operate certain oil and gas leases in the Huntington Beach area, Orange County, California. They have owned these properties and operated them for some years prior to 1970. J. I. Hathaway is one-half owner of the real property the Company leases for its offices and service yard at 10707 Norwalk Boulevard, Santa Fe Springs, California. His share of the rent for 1985 was \$7,652.
- (3) The Richard F. Hathaway and Nadine Hathaway Trust dated February 18, 1984, Nadine Hathaway, Trustee, is the owner of real property the Company leases for a field office at 11901 East Florence Avenue, Santa Fe Springs, California. The Trust received \$4,680 in rental payments from the Company in 1985. Mr. R.F. Hathaway died on June 5, 1986.
- (4) J.I. Hathaway and the Richard F. Hathaway and Nadine Hathaway Trust dated February 18, 1984, Nadine Hathaway, Trustee, operate certain oil and gas leases under the name of Hathaway Brothers. They acquired the mineral interests in 1971 and prior with the full knowledge and consent of the Company's Board of Directors.

Only non-employee directors receive payment for service on the Board of Directors. Non-employee directors receive \$500.00 for each meeting attended.

Mr. Emil Plegel owns jointly with the Company, working interests in two oil and gas leases located in California. Mr. Plegel's half interest in the leases grossed \$115,508 in 1985.

In January of 1986, Messrs. J.I. Hathaway and R.F. Hathaway and Ms. W.J. Diendorf resigned as officers of the Company and became officers of the Company's newly formed wholly-owned subsidiary, Splitoff Oil Company. Mr. R.F. Hathaway died on June 5, 1986. On April 15, 1986, Mr. L.W. Wirz resigned as President of the Company to pursue other interests and J. Ben Hathaway was elected President by the Company's Board of Directors. Mr. John H. Alexander also joined the Company as a Vice President in March, 1986. Mr. Hathaway's annual salary is \$60,000 per year and Mr. Alexander's salary is \$50,000 per year. Neither gentleman has an employment agreement with the Company.

#### RETIREMENT AND EMPLOYEE BENEFIT PLANS

The Company has a noncontributory Retirement Plan (the "Plan") covering substantially all employees which provides Plan participants with retirement benefits based on actuarial formulas which consider the employee's base salary and years of service with the Company. Examples of annual benefits payable to employees, including officers, under the Plan are set forth in the following table. The examples assume retirement during 1986, at age 65 and after the assumed periods of service.

Final Earnings and Final Average Earnings	Annual Pension Benefit for Years of Service Shown			
	10 Years	20 Years	30 Years	40 Years
\$20,000	\$ 2,533	\$ 5,065	\$ 7,598	\$10,130
30,000	4,331	8,662	12,992	17,323
40,000	6,276	12,553	18,829	25,105
50,000	8,276	16,553	24,829	33,105

Total payments made to the Plan on behalf of the Company's officers during the year ended December 31, 1985, totaled \$10,020, and were made on behalf of W. Jean Diendorf, Secretary of Splitoff Company.

The Company does not have any stock option or deferred compensation plans.



# **PRINCIPAL HOLDERS OF SECURITIES**

The following table furnishes information as of July 21, 1986, as to all persons known to the Company to be a beneficial owner of more than 5% of the Company's Common Stock, before considering the effect of the Plan of Reorganization on Shareholder's relative ownership.

<u>Shareholder's Name and Address</u>	<u>Number of Beneficially Owned Shares</u>	<u>Percentage of Outstanding Common Stock</u>
Julian I. Hathaway 11854 East Florence Avenue Santa Fe Springs, California 90670	1,214,300	23.94%
Anna A. Hathaway TR UA DTD September 5, 1984 FBO Anna A. Hathaway Revocable Trust 3 Calico Irvine, California 92714	1,157,635	22.83%
Richard F. Hathaway and Nadine Hathaway TR UA DTD February 18, 1984 FBO Richard F. Hathaway and Nadine Hathaway 11901 East Florence Avenue Santa Fe Springs, California 90670	1,132,335	22.33%
Cede and Company 7 Hanover Square New York, New York 10004	391,845	7.73%

The following table details those persons who would be considered beneficial owners of more than 5% of the Company's Common Stock after giving effect to the transactions contemplated by the Plan of Reorganization.

<u>Shareholder's Name and Address</u>	<u>Number of Beneficially Owned Shares</u>	<u>Percentage of Outstanding Common Stock After Reorganization</u>
Anna A. Hathaway TR UA DTD September 5, 1984 FBO Anna A. Hathaway 3 Calico Irvine, California 92714	1,157,635	46.36%
Cede and Company 7 Hanover Square New York, New York 10004	391,845	15.69%
Twin Montana, Inc. Fifth and Echo Graham, Texas 76046	137,950	5.52%

## **LITIGATION**

On March 25, 1986, the creditors of Powerine Oil Company ("Powerine") brought an action against the Company seeking to recover certain payments made by Powerine to the Company arising from the Company's sale of crude oil to Powerine. The Company has retained counsel to represent it in this matter and believes that it has a meritorious defense to the action.

## **SELECTION OF INDEPENDENT ACCOUNTANTS**

The Board of Directors, who serve as the Audit Committee, has selected Carpenter, Kuhn & Sprayberry as independent public accountants to audit the books, records and accounts of the Company and its subsidiaries for the year 1986. The appointment is being presented to the shareholders for their ratification.

Carpenter, Kuhn & Sprayberry began auditing the Company in 1985. Representatives of that firm will be present at the meeting, will have an opportunity to make statements if they desire, and will be available to respond to appropriate questions.

## **ANNUAL REPORT TO SHAREHOLDERS AND FORM 10-Q**

Accompanying this Proxy Statement is a copy of the Company's 1985 Annual Report to Shareholders, the contents of which are hereby incorporated by reference to this Proxy Statement. The June 30, 1985 balance sheet, statement of operations and statement of changes in financial condition are hereby incorporated by reference to Form 10-Q previously filed with the Securities and Exchange Commission.

## **SHAREHOLDER PROPOSALS FOR THE 1987 ANNUAL MEETING OF SHAREHOLDERS**

Shareholders wishing to offer a proposal at the next annual meeting must submit those proposals to the Company's Secretary no later than February 7, 1987. Proposals should be mailed to Pyramid Oil Company, P.O. Box 3225, Santa Fe Springs, California 90670.

## **OTHER MATTERS**

The Board of Directors is not aware of any other matters to be presented at the meeting. If any other matters should properly come before the meeting, the persons named in the proxy will vote the proxies according to their best judgment.

The Company files an annual report on Form 10-K with the Securities and Exchange Commission. Shareholders may obtain a copy of this report without charge, by writing to the Secretary of the Company.

**PYRAMID OIL COMPANY**

**PROXY STATEMENT**

**EXHIBIT 1**

**REPORT OF**

**PENNELL, NIELSEN & ASSOCIATES**

**PENNELL, NIELSEN & ASSOCIATES**  
215 North Marengo Avenue, Suite 300  
Pasadena, California 91101

February 12, 1986

Board of Directors  
Pyramid Oil Company

Gentlemen:

Attached is a copy of our Opinion Letter in connection with the Agreement and Plan of Reorganization, and Corporate Separation (the Agreement) among Pyramid Oil Company (the Company) and certain Shareholders.

Exhibit I defines the assets' categories and values given in connection with the proposed transaction. This exhibit was prepared by Management and adjusted as noted. The emphasis of the following analysis is on those assets which would be transferred on some basis other than on an approximate ratable value. For example, receivables and inventory would be transferred almost evenly. Auto and equipment, as well as assets under construction and yard equipment, would be, in the aggregate, transferred equally. Accordingly, in attempting to determine fairness, we have focused on those assets that were singularly retained by one or the other of the entities.

**Reserves:**

Reserves were valued in an engineering report prepared by Babson and Sheppard dated December 5, 1985.

The Company will retain 55% of the reserves while the Split-off company (S.O.C.) will retain 72% of the oil and gas profits based on prices in place on September 30, 1985. The value of retained reserves discounted at 20% is \$4,349,558 versus \$3,618,486 or a difference of \$730,713. If this discount was increased to 30%, there would be no material distortion in the relative retentions. We have examined direct cost ratios of retained versus split-off wells and find them to be roughly the same. S.O.C., however, would be retaining 72% of the cash flow from these properties. Standing alone, this would appear to be disproportionately favorable to S.O.C.

**Real Estate:**

There were no formal appraisals made in connection with real estate values. We examined the basis for the values placed on the major pieces of the real estate. S.O.C. will retain most of the real estate. There are only a few parcels that account for the bulk of the transferred value. One is the industrial tract. We have examined the individual leases on that tract which will be transferred at \$2.0 Million. These leases are presently below market. Moreover, they can contain renewal options at the same rate with little or no provision for escalation. In attempting to mark the leases to market, we have capitalized the rental income at 10% which results in a value for the property of \$627,000. Accordingly, we reduced the transfer value by \$1,373,000.

The Gilday Land value portays an unusual set of circumstances in arriving at its value. We have reviewed the assumptions with Management and consider the figure to be at the high end of probability but feel that this value can be supported. The other major pieces of real estate that would be transferred were the building land and improvements presently occupied by the Company, and a number of lots, the aggregate value of which seemed reasonable.

**Equipment:**

In connection with the transfer, we reviewed equipment appraisals which were prepared for insurance purposes. These values were significantly higher than those shown or our suggested

value. Well service equipment was valued at \$3.5 Million. While the workover business is more stable than contract drilling, it has been severely impacted over the past several years by the decline in oil prices.

With utilization rates ranging from 65 to 80% during 1985(1) (for strong contractors), there has nevertheless been a severe decline in profitability. It is virtually impossible to negotiate rates that include depreciation.

Consequently, rig values have declined. With twenty-three servicing units and a book value of \$1,140,000, the average book value per unit is just under \$50,000. The units on average are 60% depreciated. Because the Company is a well capitalized enterprise that has staying power and is a significant presence in the market, we have opted to value these assets on a going concern basis at book value of \$1,140,174. Accordingly, we have reduced the transfer value of the well service equipment by \$2,360,000.

Wilkar — The assets at this subsidiary were transferred to S.O.C. at value of \$250,000. However, the subsidiary had cash losses of \$90,731 as of September 30, 1985. Hence, going concern value would have little impact.

It is presumed that S.O.C. will attempt to sell the equipment and abandon the lease. With the general level of surplus oil field equipment available today, \$250,000 may prove to be an optimistic valuation. However, we have not adjusted this value since it would have little effect on the overall conclusions.

#### **Current Assets:**

The Company would be retaining 95% of the cash and 70% of the receivables. Certain other current assets are transferred ratably. We think this liquidity factor balances the loss of cash flow from the oil and gas reserved referenced above.

It is our conclusion, based on a number of tests we applied and based on our experience, that this division of assets was negotiated in good faith on both sides.

#### **Cash Flow:**

As of September 30, 1985, the cash flow division would have been \$490,820 for the Company and \$730,287 for S.O.C. (see Exhibit II). These numbers exclude \$68,140 from Randy's Trucking.

In the light of recent events in the oil industry, we have applied a discount of 35% to oil and gas prices to ascertain what effect that would have on cash flow. The net effect would be to reduce the Company's cash flow to \$372,179 and S.O.C.'s to \$420,287.

It is our conclusion based on a number of tests we applied that this division of assets was negotiated in good faith on both sides; the values ascribed to these assets were impartially derived and there is a balance in the consideration of value that is fair to the Company's Shareholders. It is further our view that recent events have impacted each entity about equally.

PENNELL, NIELSEN & ASSOCIATES

**PENNELL, NIELSEN & ASSOCIATES**

**215 North Marengo Avenue, Suite 300  
Pasadena, California 91101**

February 12, 1986

Board of Directors  
Pyramid Oil Company

Gentlemen:

We have been asked by the Board of Directors of Pyramid Oil Company (the Company) to render an opinion as to the fairness of the proposed Agreement and Plan of Reorganization and Corporate Separation among the Company and certain Shareholders (the Agreement) dated December 22, 1985, with the attendant values as of September 30, 1985.

As we have discussed below, it is our opinion that the proposed Agreement is fair to the Shareholders of the Company. In developing this opinion, we have relied on information supplied by Management as well as independent appraisals or valuations provided by third parties. With respect to the values of certain equipment, we do not set ourselves out as experts in this area and believe the rendering of such an opinion would be outside the scope of our engagement. Set forth below are the primary factors considered in reaching our conclusion.

The Agreement contemplates separating certain assets and transferring these assets into a wholly owned subsidiary (S.O.C.), the stock of which will be exchanged for 50.6% of the presently outstanding shares of the Company.

In order to define which assets would go to the new entity and which would stay, the assets of the Company were broken down into several major classifications. Those assets were then ascribed values that reflected the then current market. Appraisals were made on oil reserves and certain equipment. A division of assets was then proposed with a view toward equitable separation of assets at market value as well as earnings and cash flow.

With the exception of certain oil production located in the state of New York, it was the intent of the Company to retain those assets located in the San Joaquin Valley where most of its other operations are located.

In general, the Agreement provides for retention by S.O.C. of most of the real estate, while the Company retains the current assets and the bulk of the equipment. Reserves are divided almost equally.

There is no material amount of long term debt and liabilities are, for the most part, accruals or deferrals.

The Company will retain 95% of the cash and 55% of the reserves. Based on adjusted asset values, it would retain 54% of total assets and 68% of total liabilities. The retained liabilities would be 14% of adjusted total assets.

S.O.C. will retain 72% of the net profit from oil and gas, and 60% of the overall cash flow from operations calculated and adjusted as of September 30, 1985.

As a result of the profit and cash flow allocations referenced above, the Company Stockholders would endure some dilution in earnings per share. However, they would acquire incremental reserves per share. The market for the stock of the Company is thin and is inactive. Stock trading records indicate the price of the Company's shares has generally moved with the trend of the oil industry. Small producing oil companies historically sell on the perceived value of reserves. In this instance, the Company is retaining a disproportionate share of the reserves and we would expect its Stockholders to be unharmed by slightly lower earnings per share.

We believe that the values ascribed to various asset classifications have been determined fairly and impartially. And, we believe the Agreement has struck a balance with respect to division of assets, earnings, cash flow and costs that is fair to all Shareholders.

#### **Subsequent Events**

This opinion was undertaken on January 15, 1986. Since that time, there has been a precipitous decline in oil prices throughout the world. Accordingly, we re-examined the conclusions expressed herein to determine whether or not the proposal remains fair to the Shareholders of the Company.

It would appear that cash flow from oil and gas could be reduced significantly for both the Company and S.O.C. The impact would be heavier on S.O.C. than the Company since it would be distributed a disproportionate share of cash flow. Reserve values could be reduced for both companies. The Company's well service division could experience further revenue losses as marginal wells become uneconomic and are shut-in.

It is apparent that recent events could have a serious impact on both companies. However, the consequences it appears will be shares ratably and our opinion as to the fairness on the proposed Agreement remains unchanged.

**PENNELL, NIELSEN & ASSOCIATES**



# **PYRAMID OIL COMPANY**

## **Exhibit 1**

<u>Description</u>	<u>Total</u>	<u>Pyramid</u>	<u>S.O.C.</u>
Net Profit Oil and Gas .....	\$ 1,224,692	\$338,976	\$885,716
Rent Income .....	69,675	0	69,675
Other Income .....	39,283	19,642	19,641
Property Taxes .....	(67,605)	(32,297)	(35,308)
Interest .....	(3,592)	0	(3,592)
Other Expenses:			
Rent Expense .....	(10,768)	(5,380)	(5,380)
Kansas .....	(12,836)	(12,836)	0
Misc. Non-Operating .....	(80,256)	(40,128)	(40,128)
Rental Property .....	(4,440)	0	(4,440)
Wilkar (net of DD&A) .....	(90,731)	0	(90,731)
	<u>1,063,430</u>	<u>267,977</u>	<u>795,453</u>
Taft Net Cash Flow .....	<u>326,984</u>	<u>326,984</u>	
Total Cash Flow .....	<u>1,390,414</u>	<u>594,961</u>	<u>795,453</u>
Effect of RJE's Not Booked:			
Inventory Adjustment .....	(45,904)	(3,904)	(42,000)
Booked Sales Adjustment ....	(55,263)	(32,097)	(23,166)
Exploration .....	(65,263)	—	—
DD&A .....	(1,424,139)	—	—
	<u>(200,155)</u>	<u>558,960</u>	<u>730,287</u>
Net Income Per 10-Q .....	<u>(202,785)</u>		
	<u>2,630</u>		<u>171,327</u>

<u>Description</u>
Per Schedule
All Goes
50/50 Split
Allocated by Properties
Secured by Property That Goes
50/50 Split
All Stays
50/50 Split
All Goes
All Goes
All Stays

Allocated by Properties  
Allocated by Properties

# PYRAMID OIL COMPANY

## Exhibit 1

Description	Adjusted Balance		Pyramid		S.O.C.	
	DR	CR	DR	CR	DR	CR
<b>ASSETS</b>						
Cash in Bank .....	\$ 560,577.96	\$ 0.00	\$ 469,332.73		\$ 91,245.23	
Petty Cash .....	1,042.90	0.00			1,042.90	
Bank Acceptance .....	1,300,000.00	0.00	1,300,000.00			
Clearing Accounts .....	2,173.55	0.00			2,173.55	
Oil/Gas Sales Rec Adj. ....	0.00	143,118.34				\$ 143,118.34
Accts. Receivable-Trade .....	1,337,693.94	0.00	943,709.31		393,984.63	
Reserve for Doubtful Accts. ....	0.00	125,936.25		\$ 5,000.00		120,936.25
Accts. Receivable-Other .....	53,831.01	0.00		105,874.47	159,705.48	
Crude Oil Inventory .....	191,480.17	0.00	103,942.77		87,537.40	
Prepaid Insurance .....	96,937.15	0.00	74,511.22		22,425.93	
Prepaid Property Taxes .....	9,449.97	0.00	4,438.40		5,011.57	
Prepaid Income Taxes .....	15,000.00	0.00	15,000.00			
Deferred Expenses .....	100.00	0.00			100.00	
Well Service Equip-Taft .....	3,500,000.00	0.00	3,500,000.00			
Service Station .....	55,000.00	0.00			55,000.00	
Bldg./Land Improvements .....	285,000.00	0.00	35,000.00		250,000.00	
Gilday Land .....	1,500,000.00	0.00			1,500,000.00	
Ranton Land .....	100,000.00	0.00	100,000.00			
Real Estate:						
Industrial Tract .....	2,000,000.00	0.00			2,000,000.00	
Jalk 5 & 119 .....	50,000.00	0.00			50,000.00	
Rossman Lots .....	120,000.00	0.00			120,000.00	
Long Beach Lots .....	25,000.00	0.00			25,000.00	
Service Station .....	0.00	0.00			0.00	
Colorado Lots-Marvel .....	5,000.00	0.00			5,000.00	
Kern County .....	2,000.00	0.00	2,000.00			
Mullaney Yard .....	18,000.00	0.00	18,000.00			
Taft Well Service .....	0.00	0.00	0.00			
Auto & Equipment .....	1,338,350.00	0.00	618,000.00		720,350.00	
Yard Inventory-except Taft .....	521,454.00	0.00	237,755.00		283,699.00	
Assets under construction .....	286,000.00	0.00	175,000.00		111,000.00	
Equipment-Radio Comm .....	20,000.00	0.00	0.00		20,000.00	
Equip-Red Mesa Gas Sys .....	50,000.00	0.00	0.00		50,000.00	
Lease Equip.-Wilkar .....	250,000.00	0.00	0.00		250,000.00	
Oil & Gas Properties .....	7,968,404.00	0.00	4,349,558.00		3,618,846.00	
Royalty Interest/Min Rts. ....	1.00	0.00	1.00			
Mining Claims .....	1.00	0.00	1.00			
Easements .....	300.00	0.00			300.00	
Office Furn & Fixtures .....	15,000.00	0.00	10,000.00		5,000.00	
Deposits .....	51,070.00	0.00	33,787.00		17,283.00	
Investments .....	230.23	0.00	230.23			
	<u>\$21,729,096.88</u>	<u>\$ 269,054.59</u>	<u>\$11,990,266.66</u>	<u>\$ 110,874.47</u>	<u>\$ 9,844,704.69</u>	<u>\$ 264,054.59</u>
Total Assets .....	<u>\$21,460,042.29</u>		<u>\$11,879,392.19</u>	0.00	<u>\$ 9,580,650.10</u>	0.00
Adjustments:			(2,360,000.00)		(1,373,000.00)	
Total Adjusted Assets .....	<u>\$17,727,042.00</u>		<u>\$ 9,519,392.00</u>		<u>\$ 8,207,650.00</u>	

**Exhibit 1 (Continued)**

Description	Adjusted Balance		Pyramid		S.O.C.	
	DR	CR	DR	CR	DR	CR
<b>LIABILITIES &amp; EQUITY</b>						
Accounts Payable .....	\$ 0.00	\$ 365,603.29		\$ 216,847.83		\$ 148,755.46
Unclaimed Dividends .....	0.00	11,327.54		11,327.54		
Accts Pay-Unit Operator .....	0.00	135,500.81				135,500.81
Ranton Payable .....	0.00	324,000.00		324,000.00		
Accrued Pension Plan .....	0.00	152,100.00		124,960.38		27,139.62
Accrued Payroll Taxes .....	0.00	13,013.12		9,174.57		3,838.55
Accrued Payroll W/H Taxes .....	0.00	10,551.66		5,754.88		4,796.78
Accrued Sales Tax .....	0.00	1.08		5.10	4.02	
Accrued Out-of-State Taxes .....	266.47	0.00		469.17	735.64	
Accrued Property Taxes .....	3,234.69	0.00	1,617.34		1,617.35	
Accrued Royalties .....	0.00	123,162.21		61,753.10		61,409.11
Accrued Income Taxes .....	196,116.34	0.00	196,116.34			
Accrued Payroll .....	0.00	40,675.61		24,407.89		16,267.72
Accrued Compensation Ins. ....	0.00	12,872.00		15,005.90	2,133.90	
Deferred Income Taxes .....	0.00	961,008.00		770,027.00		190,981.00
Notes Payable L-T .....	0.00	20,092.97		0.00		20,092.97
Notes Payable S-T .....	0.00	25,083.00		0.00		25,083.00
	<u>\$ 199,617.50</u>	<u>\$ 2,194,991.29</u>	<u>\$ 197,733.68</u>	<u>\$ 1,563,733.36</u>	<u>\$ 4,490.91</u>	<u>\$ 633,865.02</u>
Total Liabilities .....		<u>\$ 1,995,373.79</u>		<u>\$ 1,365,999.68</u>		<u>\$ 629,374.11</u>
<b>EQUITY</b>						
Capital Stock Outstanding .....	\$ 0.00	\$ 2,187,088.61		\$ 1,093,544.30		\$1,093,544.31
Appraisal Capital .....	0.00	7,964,120.70		3,650,942.24		4,313,178.46
Retained Earnings .....	0.00	9,402,402.11		5,617,933.12		3,784,468.99
Year to Date Income .....	88,942.92	0.00		150,972.85	\$ 239,915.77	
	<u>\$ 88,942.92</u>	<u>\$19,553,611.42</u>	<u>0.00</u>	<u>\$10,513,392.51</u>	<u>\$ 239,915.77</u>	<u>\$9,191,191.76</u>
Total Equity .....		<u>\$19,464,668.50</u>		<u>\$10,513,392.51</u>		<u>\$8,951,275.99</u>
Total Liabilities and Equity .....		<u>\$21,460,042.29</u>		<u>\$11,879,392.19</u>		<u>\$9,580,650.10</u>

# **PYRAMID OIL COMPANY**

## **Exhibit 2**

<u>Field</u>	<u>5%</u>	<u>10%</u>	<u>20%</u>
<b>Stays:</b>			
Carneros Creek.....	\$2,205,943	\$2,014,344	\$1,662,502
Delaney Tunnel .....	57,493	48,880	36,317
Chico Martinez .....	0	0	0
Edison .....	159,760	139,889	112,503
Lost Hills .....	0	0	0
Pike .....	1,250,702	961,449	650,659
Mountain View .....	2,493,205	1,812,890	1,164,016
Race Track Hill .....	75,211	68,237	57,717
New York .....	1,225,325	959,040	665,844
<b>Total Stays</b> .....	<u>\$7,467,639</u>	<u>\$6,004,729</u>	<u>\$4,349,558</u>
<b>Goes:</b>			
Nay Tamme .....	\$ 0	\$ 0	\$ 0
Long Beach .....	1,296,375	1,010,200	699,158
Richfield .....	2,803,463	2,060,346	1,348,906
Springs .....	710,174	648,177	552,206
Yorba Linda .....	396,141	324,742	240,979
Colorado .....	555,516	503,769	426,426
Texas .....	150,867	132,378	106,973
Pennsylvania .....	287,936	271,276	244,198
<b>Total Goes</b> .....	<u>\$6,200,472</u>	<u>\$4,950,888</u>	<u>\$3,618,846</u>
<b>Difference</b> .....	<u>\$1,267,167</u>	<u>\$1,053,841</u>	<u>\$ 730,712</u>

All Information is Per the Engineers Report for 1985

**PYRAMID OIL COMPANY**

**PROXY STATEMENT**

**EXHIBIT 2**

**AGREEMENT AND PLAN  
OF REORGANIZATION AND  
CORPORATE SEPARATION  
among**

**PYRAMID OIL COMPANY  
and**

**THE SHAREHOLDERS LISTED IN SCHEDULE 1**

## **AGREEMENT**

THIS AGREEMENT AND PLAN OF REORGANIZATION AND CORPORATE SEPARATION (the "Agreement"), dated as of December 31, 1985 is among Pyramid Oil Company, a California corporation (the "Company"), and the Shareholders listed in Schedule 1 attached hereto (the "Shareholders").

### **RECITALS**

A. The Company intends to form Splitoff Oil Corporation ("SOC"), a California corporation, which shall be a wholly owned subsidiary of the Company. Upon formation, the Company shall transfer to SOC those certain assets and liabilities which are described in the Schedule of Unaudited Assets and Liabilities attached as Schedule 2 hereto.

B. The Shareholders have offered to exchange their Stock in the Company ("Stock") for all of the outstanding shares of SOC (the "SOC Stock") and the Company desires to exchange all of its SOC Stock for the Shareholder's Stock as described in Schedule 1 attached hereto, on the terms and conditions set forth in this Agreement.

C. The parties hereto intend that the exchange of the Stock and the SOC Stock by the parties on the terms and conditions set forth in this Agreement qualify as a tax free "split-off" under Section 355 of the Internal Revenue Code of 1954, as amended (the "Code"), and that the formation of SOC by the Company qualify as a tax free reorganization under Section 368(a)(1)(D) of the Code.

### **ARTICLE I**

#### **AGREEMENT FOR EXCHANGE OF SHARES**

1.1 **Exchange of Stock.** The Shareholders agree to tender to the Company all of the Stock described in Schedule 1 in exchange for all of the outstanding SOC Stock held by the Company. At the closing the Company agrees to deliver a SOC stock certificate to each Shareholder listed in Schedule 1 attached hereto, and each SOC certificate delivered shall be issued in the number of shares tendered to the Company pursuant to this Agreement by the Shareholder.

1.2 **Closing.** The exchange of the Shareholders' Stock for the Company's SOC Stock shall be consummated at the offices of O'Melveny & Myers, 1800 Century Park East, Los Angeles, California on March 31, 1986 at 10:00 A.M. or at such other time or place as agreed to by the parties by delivery to the Company of certificates of the Stock duly endorsed for assignment and transfer, or accompanied by duly executed stock powers, against the delivery of the capital stock of SOC as set forth in Section 1.1. The time of delivery of the Stock and the capital stock of SOC is called the "Closing Date." At the Closing Julian I. Hathaway shall tender his written resignation as an officer and director of the Company, and Richard F. Hathaway shall tender his written resignation as an officer of the Company.

1.3 **Ownership and Voting of Shares Prior to Closing.** Until the Closing in accordance with the terms of this Agreement, Shareholders shall retain full ownership interest of the Stock, subject only to the obligations imposed upon them under this Agreement. Without limiting the foregoing, and except as hereafter provided, Shareholders shall have the right to vote the Stock on all matters to be voted on by the shareholders of the Company at any annual or special meeting of shareholders prior to the Closing. Notwithstanding the foregoing, Shareholders shall vote that proportion of their Stock in favor of each matter presented to shareholders of the Company for their approval and that proportion of their Stock against each matter presented to the shareholders of the Company for their approval, in each case, equal to the relative proportion of all other shares voted for and against each such matter presented to the shareholders of the Company.

**1.4 Absence of Solicitation by the Company.** This Agreement arose out of many discussions between the Company and Shareholders. The Company did not, directly or indirectly, solicit the exchange contemplated by this Agreement.

## ARTICLE II

### REPRESENTATIONS AND WARRANTIES OF SHAREHOLDERS

Each Shareholder, jointly and severally, represents, warrants and agrees as follows:

**2.1 The Stock.** Each Shareholder owns the number of shares of Stock stated in Schedule 1 free and clear of all liens, encumbrances, charges, assessments and other restrictions. On the Closing Date the Company will receive good title to the Stock, free and clear of all liens, encumbrances, claims, charges, assessments and other restrictions. No Shareholder has acquired any portion of the Stock in a taxable transaction within the last five years.

**2.2 Valid and Binding.** Each Shareholder is duly and validly executing and delivering this Agreement and no further action is necessary in order to make this Agreement valid and binding against such Shareholder.

**2.3 Investment.** Shareholders are acquiring the capital stock of SOC for their own account and not with a view to, or for resale in connection with the distribution or other disposition of such capital stock.

**2.4 Absence of Other Representations and Warranties.** As a Director and Vice President of the Company, Julian I. Hathaway and Richard F. Hathaway, as a Vice President were, as of the Closing Date, familiar with the business of and possessed such information relating to the financial and other affairs of the business as they would have then deemed necessary to then reach an informed decision to enter into this Agreement. The Company has made available to the Shareholders, for inspection, copies of all documents filed by the Company with the Securities and Exchange Commission under the Securities and Exchange Act of 1934, as amended, together with such additional documents as they requested. In addition, the Shareholders have had sufficient opportunity, through their counsel, to ask questions and receive answers to verify the accuracy of information relating to the Company. Accordingly, the Shareholders are not relying upon any representation or any warranty of the Company, except for those representations and warranties set forth in Article III of this Agreement and that certain Letter of Disclosure (the "Letter of Disclosure") dated March 31, 1986.

**2.5 Counsel.** The Shareholders have consulted with their counsel to the extent deemed necessary by them as to the matters covered by this Agreement.

**2.6 Financial Statements.** To the best of Shareholder Julian I. Hathaway's knowledge, the Company's financial statements dated September 30, 1985, as submitted to the Securities and Exchange Commission on Form 10-Q, are true and correct in all material respects.

**2.7 Pension Plan.** The Company currently maintains the Pyramid Oil Company Pension Plan (the "Plan") covering present and former employees of the Company.

(a) The Shareholders agree to cause SOC to establish as soon as practicable a pension plan (the "SOC Plan") and trust, effective as of the Closing Date, the terms and conditions of which are substantially identical to the Plan. The Shareholders also agree that employees of the Company who become employees of SOC on the day after the Closing Date (hereinafter collectively referred to as the "Transferred Employees") shall have their service which is recognized under the Plan credited for purposes of eligibility, vesting and benefit accrual under the SOC Plan.



(b) The Shareholders agree that the Transferred Employees shall receive under the SOC Plan all benefits accrued under the Plan as of the Closing Date and that all their service and other factors (including without limitation, actuarial assumptions) affecting benefits accrued under the Plan through the Closing Date will be recognized and preserved under the SOC Plan.

(c) The Company shall amend the Plan to the extent necessary to allow the transfer specified herein and shall cause to be transferred from the trustee of the Plan to the trustee of the SOC Plan, in a manner consistent with Section 414(1) of the Code, on a date (hereinafter referred to as the "Transfer Date") as soon as practicable following the Closing Date, an amount in cash or other property acceptable to the trustee of the SOC Plan which equals the present value of the Transferred Employees' total vested and nonvested accrued benefits under the Plan, determined using the actuarial assumptions in effect under the Plan as of the Closing Date; provided, however, that no such transfer shall be made (1) prior to receipt by the Company of an opinion of counsel to SOC, satisfactory to the Company, that the SOC Plan is qualified under Section 401(a) of the Code and that the trust established thereunder is exempt from tax pursuant to Section 501(a) of the Code or (2) less than 30 days after the filing of the actuarial statement of valuation in accordance with the provisions of Section 6058(b) of the Code evidencing compliance with the requirements of Section 401(a)(12) of the Code.

(d) The Company's obligation to cause assets to be transferred from the Plan to the SOC Plan is conditioned upon receipt from its actuaries, Milliman & Robertson, Inc. ("Actuaries"), of an actuarial statement of valuation in accordance with the provisions of Section 6058(b) of the Code evidencing compliance with the requirements of Section 401(a)(12) of the Code to the effect that each Transferred Employee would receive a benefit under the SOC Plan immediately after the Transfer Date, if the SOC Plan were to terminate at that time, which would be equal to the present value on a termination basis of the benefits to which he would have been entitled under the Plan before the Transfer Date if the Plan had terminated at that time.

(e) The Company and SOC shall cooperate in the payment of benefits of Transferred Employees who terminate after the Closing Date and before the Transfer Date. The amount of transfer from the Plan to the SOC Plan shall be reduced by the amount of any such benefits paid from the assets of the Plan.

(f) The Company shall be responsible for all contributions to the Plan on behalf of the Transferred Employees, and any filings and reports with respect thereto, through the Closing Date, but shall not be responsible for any contributions, filings or reports with respect to the Transferred Employees after the Closing Date.

(g) To the extent that the Company's Actuaries determine that as of the Closing Date the Plan's total assets exceed the amount required by the terms of the Plan, or ERISA or the Code, such excess assets ("Excess Assets") shall be allocated between the Plan and the SOC Plan. The Plan's share of the Excess Assets shall be computed by multiplying the total Excess Assets by the ratio of the assets retained in the Plan as of the Closing Date to the total Plan Assets as of the Closing Date. The SOC Plan's share of the Excess Assets shall be computed by multiplying the total Excess Assets by the ratio of the assets transferred to the SOC Plan as of the Closing Date to the total Plan assets as of the Closing Date. If the Actuaries determine that this method of allocating Excess Assets is not allowed under the terms of the Plan, ERISA, the Code or other governing law or regulations, then the Excess Assets shall be allocated among the Plan and the SOC Plan in an equitable manner approved by the Actuaries.

## ARTICLE III

### REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company represents, warrants and agrees as follows:

**3.1 Organization and Related Matters.** The Company is, and on the Closing Date SOC will be, a corporation duly organized, validly existing and in good standing under the laws of the State of California. There is only one class of SOC Stock outstanding and the Company owns all of the SOC outstanding Stock free and clear of all liens, encumbrances, charges, assessments or other restrictions. The Company has the corporate power to execute and deliver this Agreement and to consummate the transactions contemplated by this Agreement.

**3.2 Authorization of Agreement.** The execution, delivery and performance of this Agreement by the Company have been duly and validly authorized and approved by the Board of Directors of the Company. The Company has taken all action required by law, its Articles of Incorporation and Bylaws to authorize this Agreement and this Agreement is valid and binding on the Company in accordance with its terms.

**3.3 Continuity of Business.** The Company represents and warrants that the enterprises whose transfer is contemplated by this Agreement have been ongoing businesses for the last five years.

## ARTICLE IV

### COVENANTS

**4.1 SOC.** As of the Closing Date the Company shall transfer the assets and liabilities described in Schedule 2 to SOC. The Company shall use its best efforts to cause the Leases to be assigned to SOC.

**4.2 Standstill Agreement.** (a) For a period of ten years following the Closing Date, each Shareholder agrees that he, she or it as the case may be shall not directly or indirectly:

- (i) Acquire any shares of stock of the Company;
- (ii) Attend any directors or shareholders meetings of the Company;
- (iii) Attempt to influence any management policies of the Company;

(b) The Company, J. Ben Hathaway and John H. Alexander agree not to make any disparaging statements about the Shareholders or SOC, its business and/or its employees.

(c) The Shareholders agree not to make any disparaging statements about J. Ben Hathaway, John H. Alexander, the Company, the Company's business, or the Company's employees.

**4.3 Additional Agreements.** Subject to the terms and conditions of this Agreement, each party agrees to use all reasonable efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary, proper or advisable under applicable laws and regulations to consummate and make effective the transactions contemplated by this Agreement. If after the Closing Date, any further action is necessary or desirable to carry out the purposes of this agreement, the officers or directors of the Company and the Shareholders shall each take all such necessary action.

## ARTICLE V

### CONDITIONS OF PURCHASE

**5.1 General Conditions.** The obligations of each party to complete the transactions contemplated by this Agreement subject to the following conditions:

(a) *No Court Orders.* There shall not be any court order or judgment prohibiting or invalidating the transactions contemplated by this Agreement.

(b) *Statutory Requirements.* All statutory requirements and all material authorizations, consents and approvals of all federal, state and local governmental agencies and authorities necessary or required to be obtained for the valid consummation of the transactions contemplated by this Agreement shall have been fulfilled or obtained.

(c) *Mutual Release.* The parties shall have entered into releases substantially in the form of those attached as Exhibits 1 through 4 to this Agreement.

(d) *Approval by the Company's Board.* The Company's Board of Directors shall have approved this Agreement by a majority vote of the Company's disinterested Directors.

(e) *Approval by the Company's Shareholders.* A majority of the Company's shareholders shall have approved this Agreement. The Shareholders shall by proxy vote that proportion of their stock in favor of this Agreement and that proportion of their stock against this Agreement equal to the relative proportion of all of the shares so voted.

**5.2 Conditions to the Obligations of the Company.** The obligations of the Company pursuant to this Agreement shall be subject to the following conditions:

(a) *Consents.* The Company shall have received all necessary consents to the assignment of the Leases to SOC.

(b) *Shares.* Shareholders shall have delivered to the Company certificates for the Stock duly endorsed for assignment and transfer, or accompanied by duly executed stock powers.

(c) *Resignations.* Julian I. Hathaway shall have tendered his written resignation as an officer and director of the Company and Richard F. Hathaway shall have tendered his written resignation as an officer of the Company.

(d) *Favorable Opinion.* The Company's Board of Directors shall receive a favorable opinion rendered by experts retained by the Company as to the fairness of the transactions contemplated by this Agreement.

**5.3 Conditions to the Obligations of Shareholders.** The obligations of the Shareholders pursuant to this Agreement shall be subject to the following conditions:

(a) *Receipt of SOC Stock.* The Shareholders shall receive all of the outstanding SOC Stock in the percentages set forth in Schedule 1 attached hereto.

(b) *Consents.* The Company shall have used its best efforts to obtain the consents necessary for the assignment of the Leases described in Schedule 2 to SOC.

**5.4 Termination of Agreement.** This Agreement and the related transactions may only be terminated as follows:

(a) *Mutual Consent.* At any time before the Closing Date by mutual consent of the Company and the Shareholders.

(b) *Expiration Date.* By either the Company or the Shareholders if the transactions contemplated hereby have not been completed by March 31, 1986, which date may be extended by mutual agreement of the Company and the Shareholders.

(c) *Breach or Failure of Condition.* By either party if the other party has made a material misrepresentation or materially breached any covenant set forth in this Agreement (and if such misrepresentation or breach cannot be cured within three business days after notice from the non-breaching party), or any of the conditions to its obligations which are required to be fulfilled at the Closing Date cannot or will not be so fulfilled.

## ARTICLE VI

### TERMINATION OF OBLIGATIONS AND WAIVER OF CONDITIONS

**6.1 Termination.** If this Agreement shall be terminated pursuant to Section 5.4, all further obligations of each party under this Agreement shall terminate without further liability to the other parties, and each party will pay its own costs and expenses incident to the negotiation, preparation and performance of this Agreement including the fees, expenses and disbursements of its counsel, provided that any right of action for breach of this Agreement shall survive a termination pursuant to Sections 5.4(b) and 5.4(c).

**6.2 Waiver of Conditions.** If any condition specified in Section 5.1 has not been satisfied, the Company may nevertheless, at its election proceed with the transactions contemplated by this Agreement. If any condition specified in Section 5.1 has not been satisfied, Shareholder may nevertheless, at its election proceed with the transactions contemplated by this Agreement.

## ARTICLE VII

### INDEMNIFICATION

**7.1 The Shareholders.** The Company agrees to indemnify and hold the Shareholders harmless from and against all claims, demands, losses, costs, expenses, obligations, liabilities, actions, suits, damages and deficiencies which may be asserted against SOC or the Shareholders which arise out of or result from the breach of any of the Company's representations or warranties contained in this Agreement or in the Letter of Disclosure to be delivered to the Shareholders at or prior to the Closing.

**7.2 The Company.** The Shareholders agree to indemnify and hold the Company harmless from and against all claims, demands, losses, costs, expenses, obligations, liabilities, actions, suits, damages and deficiencies which may be asserted against the Company which arise from or in connection with:

(a) Any of the assets or liabilities transferred to SOC by the Company and described in Schedule 2 attached hereto;

(b) Any of the Shareholders' representations or warranties contained in this Agreement or contained in the Letter of Disclosure to be delivered to the Company at or prior to the Closing.

**7.3 Indemnification of Directors.** The Company agrees to indemnify Shareholders that were Directors prior to the Closing Date against loss or liability arising from claims made against the Company's Directors in connection with acts done by them in their capacity as Directors. However, the Company shall not provide indemnification on behalf of Shareholders that were Directors as of the Closing Date for loss or liability arising from claims made in connection with the transactions contemplated by this Agreement.

## ARTICLE VIII

### GENERAL

**8.1 Amendments.** This Agreement may not be amended except by an instrument in writing signed on behalf of each party.

**8.2 Governing Law.** This Agreement and the legal relations between the parties shall be governed by and construed in accordance with the laws of the State of California.

**8.3 Notices.** Any notices or other communications required or permitted hereunder shall be sufficiently given if sent by registered or certified mail (return-receipt requested), to the Company, to Pyramid Oil Company, P. O. Box 3225, Santa Fe Springs, California 90870, Attention: Leroy W. Wirz, President; if to the Shareholders, to Julian I. Hathaway, P.O. Box 3404, Santa Fe Springs, California 90670, with a copy to Atkinson & Gibson, P.O. Box 92, Whittier, California 90608, Attention: Robert Atkinson, Esq., or such other address as shall be furnished in writing by either party, and any such notice or communication shall be deemed to have been given as of the date so mailed (except that a notice of change of address shall not be deemed to have been given until received by the addressee).

**8.4 No Assignment or Benefit to Third Parties.** This Agreement may not be assigned by operation of law or otherwise. Nothing expressed or implied in this Agreement is intended, nor shall be construed, to confer (a) any rights, remedies, obligations or liabilities, legal or equitable, other than to the parties to this Agreement and their successors, executors, administrators or assigns; or (b) otherwise constitute any person a third party beneficiary under or by reason of this Agreement.

**8.5 Entire Agreement.** This Agreement (including the schedules, exhibits, documents and instruments referred to in this Agreement) constitutes the entire agreement and supersedes all other prior agreements and understandings, both written and oral, with respect to the subject matter of this Agreement.

**8.6 Counterparts.** This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement and shall become effective when one or more counterparts have been signed by each party and delivered to the other.

**8.7 Survival of Representations and Warranties.** The representations and warranties of Shareholders shall remain in full force for a period of one year after the Closing Date.

Each of the parties has caused this Agreement to be executed on its behalf by its duly authorized representatives, all as of the day and year first above written.

PYRAMID OIL COMPANY

By \_\_\_\_\_  
Leroy W. Wirz, President

SHAREHOLDERS:

\_\_\_\_\_  
Julian I. Hathaway

\_\_\_\_\_  
Richard F. Hathaway and  
Nadine Hathaway, Trustee

\_\_\_\_\_  
Richard F. Hathaway II

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**Richard F. Hathaway III**

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**Sherry Nadine Hathaway**

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**William A. Hathaway**

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**Remy A. Hathaway**

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**Aaron Bowe Hathaway**

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**Loline Hathaway Kundtz**

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**Patrick Kundtz**

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**Roberta Lynn Kundtz**

---

**Francine Rippy**

---

**Sara L. Rippy**

---

**Jesse Louis Hathaway**

---

**Val George Ashton, Jr.**

---

**Mario Armando Rafael Diaz**

\_\_\_\_\_  
**Helen M. Hathaway**

\_\_\_\_\_  
**J. Terrill Hathaway**

\_\_\_\_\_  
**Kathryn L. Weber**

\_\_\_\_\_  
**Margaret J. Park**

\_\_\_\_\_  
**Calway Corp.**  
**by: Julian I. Hathaway**  
**President**

**Pursuant to the First Amendment of the Agreement dated March 3, 1986:**

\_\_\_\_\_  
**Jesse R. Hathaway**



# SCHEDULE 1

## The "Shareholders"

<u>Name</u>	<u>Number of Shares of Pyramid Oil Company Common Stock Owned</u>
Julian I. Hathaway .....	1,214,300
Richard F. Hathaway and Nadine Hathaway, Trustee .....	1,132,335
Richard F. Hathaway II .....	30,250
Richard F. Hathaway III .....	1,950
Sherry Nadine Hathaway .....	1,950
William A. Hathaway .....	18,950
Remy A. Hathaway .....	1,950
Aaron Bowe Hathaway .....	1,950
Loline Hathaway Kundtz .....	18,250
Patrick Kundtz .....	1,950
Roberta Lynn Kundtz .....	1,950
Francine Rippy .....	30,250
Sara L. Rippy .....	1,950
Jesse Louis Hathaway .....	1,950
Val George Ashton, Jr. ....	1,950
Mario Armando Rafael Diaz .....	1,700
Helen M. Hathaway .....	24,035
J. Terrill Hathaway .....	32,900
Kathryn L. Weber .....	22,000
Margaret J. Park .....	18,200
Calway Corp. ....	4,500
Pursuant to the First Amendment of the Agreement dated March 3, 1986:	
Jesse R. Hathaway .....	9,250

## **SCHEDULE 2**

**Attached to and made a part of Agreement dated December 31, 1985**

### **LOS ANGELES BASIN**

#### **NAY TAMME LEASE**

Consisting of two tracts of land described as follows:

The West 68 feet of that portion of Lot 9, Block 2 Yorba Linda Tract, as per map recorded in Book 5, pages 17 and 18 of Miscellaneous Maps, records of Orange County, California, lying west of the right of way of the Atchison, Topeka and Santa Fe Railway Company. East line of said 68 foot parcel being parallel to the west line of said Lot 9

*Orange County, State of California.*

That portion of Lot Nine in Block Two of the "Yorba Linda Tract" in the County of Orange, State of California, as per map recorded in Book 5, pages 17 and 18 of Miscellaneous Maps in the office of the Recorder of Orange County, lying west of the right of way of the Atchison Topeka and Santa Fe Railway Company. Excepting therefrom the west 68 feet thereof, the East line of said 68 foot parcel being parallel to the West line of said Lot Nine.

*Orange County, California.*

### **LONG BEACH**

#### **DUNCAN LEASE**

Lots Ten (10), Eleven (11) and Twelve (12) of Block "B" of E. S. Fields Long Beach Heights Tract, as per map recorded in Book 10, Page 196 of Maps, in the office of the County of Los Angeles, State of California.

*Los Angeles County, California.*

#### **FULTON McKEE LEASE**

Lots Two (2) and Three (3) of Block C, Vista Del Mar Tract No. 2, as per map recorded in Book 10 of maps, Page 158, records of Los Angeles County.

*Los Angeles, California.*

### **RICHFIELD**

#### **AHA LEASE**

Consisting of two tracts of land described as follows:

That Portion of Lot 6 of Hazard's Subdivision, as per map thereof recorded in Book 18 at Page 7, of Miscellaneous Records of Los Angeles County.

That Portion of Lot 15 of Hazard's Subdivision, in the County of Orange, State of California, as per map thereof Recorded in Book 18, at Page 7 of Miscellaneous Records of Los Angeles County, California.

**BLATTNER LEASE**

That Portion of Lots 8 and 9 of Hazard's Subdivision of the Shanklin Tract, County of Orange, State of California, as per map recorded in Book 18, Page 7 of Miscellaneous Records of Los Angeles County, California.

**JOE J LEASE**

That Portion of Lot 12 of Hazard's Subdivision of the Shanklin Tract as shown on a map of said subdivision, recorded in Book 18, Page 7 of Miscellaneous Records of Los Angeles County, California.

**SANTA FE SPRINGS**

**BAKER LEASE**

TOWNSHIP 3 SOUTH, RANGE 11 WEST, SBM  
Section 5: S/2 SW/4

*over*  
*10 acres*  
Los Angeles County, California

**JALK LEASE**

TOWNSHIP 3 SOUTH, RANGE 11 WEST, SBM  
Section 6: NE/4 SW/4

Los Angeles County, California

**SANTA FE SPRINGS UNIT**

All interest rising out of that certain Unit Agreement called Santa Fe Springs Unit, Santa Fe Springs Field, Los Angeles County, California, said Agreement dated April 1, 1964, along with any side letters, amendments or modifications thereto.

**YORBA LINDA**

**GILDAY LEASE**

Lot 1 in Block 4 of the "Yorba Linda Tract", as shown on map recorded in Book 5, Pages 17 and 18 of the Miscellaneous Maps, records of Orange County, California.

**ROBERTS LEASE**

Lots 1 and 2 in Block 4 of the Yorba Linda Tract, as shown on map recorded in Book 5, Pages 17 and 18 of Miscellaneous Maps, records of Orange County, California.

**MIYODA LEASE**

That Portion of Lot 4, in Block 4 of the Yorba Linda Tract, in the City of Yorba Linda, as per map recorded in Book 5, Pages 17 and 18, Miscellaneous Maps, records of Orange County, California.

**SHAY-ODOM LEASE**

That Portion of Lot 3, in Block 4 of the Yorba Linda Tract, as per map recorded in Book 5, Pages 17 and 18, Miscellaneous Maps, records of Orange County, California.

**COLORADO**

**LA PLATA COUNTY**

**BARR LEASE**

TOWNSHIP 33 NORTH, RANGE 12 WEST, NMPM  
Section 14: SW/4

**MACY LEASE**

TOWNSHIP 33 NORTH, RANGE 12 WEST, NMPM  
Section 14: W/2 SE/4

**ROWE LEASE**

TOWNSHIP 33 NORTH, RANGE 12 WEST, NMPM  
Section 16: S/2 NE/4  
Section 21: NE/4 SE/4

**SANCHEZ LEASE**

TOWNSHIP 33 NORTH, RANGE 12 WEST, NMPM  
Section 22: E/2 SE/4  
Section 23: NW/4 SW/4

**DUDLEY LEASE**

TOWNSHIP 33 NORTH, RANGE 12 WEST, NMPM  
Section 22: N/2 NE/4 NE/4  
Section 23: W/2 NW/4 SW/4, NE/4

**HALL LEASE**

TOWNSHIP 33 NORTH, RANGE 12 WEST, NMPM  
Section 22: E/2 NW/4, SW/4 NW/4

**JCK LEASE**

TOWNSHIP 33 NORTH, RANGE 12 WEST, NMPM  
Section 23: SE/4 NW/4, E/2 SW/4, SW/4 SW/4

**HERRERA LEASE**

TOWNSHIP 33 NORTH, RANGE 12 WEST, NMPM  
Section 23: S/2 SE/4  
Section 26: NW/4 NE/4

**TURNER LEASE**

**TOWNSHIP 33 NORTH, RANGE 12 WEST, NMPM**

**Section 26: N/2 NW/4**

**Section 27: E/2 NE/4**

**KROEGER-FERGUSON LEASE**

**TOWNSHIP 33 NORTH, RANGE 12 WEST, NMPM**

**Section 27: N/2 SW/4**

**KROEGER-FERGUSON LEASE**

**TOWNSHIP 33 NORTH, RANGE 12 WEST, NMPM**

**Section 27: SW/4 NE/4, N/2 SE/4, SE/4 SE/4**

**HARRIS LEASE**

**TOWNSHIP 33 NORTH, RANGE 12 WEST, NMPM**

**Section 28: NE/4 SE/4**

**PETROLEUM DEVELOPMENT LEASE**

**TOWNSHIP 33 NORTH, RANGE 12 WEST, NMPM**

**Section 28: W/2 NE/4, SE/4 NW/4, E/2 SW/4, SW/4 SW/4, NW/4 SE/4**

**FERGUSON LEASE**

**TOWNSHIP 33 NORTH, RANGE 12 WEST, NMPM**

**Section 26: SW/4 SE/4, SE/4 SW/4, W/2 SW/4**

**Section 33: S/2 NE/4**

**Section 34: N/2 NE/4**

**Section 35: N/2 NW/4, NW/4 NE/4**

**FERGUSON LEASE**

**TOWNSHIP 33 NORTH, RANGE 12 WEST, NMPM**

**Section 33: SW/4 SE/4, N/2 SE/4**

**Section 34: SW/4 NW/4, NW/4 SW/4, NE/4 SE/4**

**Section 35: SW/4 NW/4**

**FERGUSON, KROEGER, THURSTON LEASE**

**TOWNSHIP 33 NORTH, RANGE 12 WEST, NMPM**

**Section 33: SE/4 SE/4**

**Section 34: SW/4 SW/4, NE/4 SW/4, NW/4 SE/4, SE/4 SW/4**

**TOWNSHIP 33 NORTH, RANGE 13 WEST, NMPM**

**Section 1: Lot 1**

**CUSHING LEASE**

**TOWNSHIP 33 NORTH, RANGE 13 WEST, NMPM**

**Section 1: Lots 6, 7, 8, 11**

**THURSTON, KROEGER LEASE**

**TOWNSHIP 33 NORTH, RANGE 13 WEST, NMPM**

**Section 1: Lot 5**

**Section 2: Lots 7, 8**

**CAMPBELL LEASE**

**TOWNSHIP 33 NORTH, RANGE 12 WEST, NMPM**

**Section 15: W/2 SW/4**

All of the above leases cover the rights from the level of the ground to the base of the Morrison formation.

An undivided five percent overriding royalty for all the above listed leases is included for all production from below the base of the Morrison formation.

The following leases cover all the mineral rights with no restriction as to depth.

**COMPTON LEASE**

**TOWNSHIP 33 NORTH, RANGE 12 WEST, NMPM**

**Section 21: S/2 NE/4, NW/4 SE/4**

**DYEHARD LEASE**

**TOWNSHIP 33 NORTH, RANGE 13 WEST, NMPM**

**Section 13: NE/4 NW/4**

**HALL LEASE**

**TOWNSHIP 33 NORTH, RANGE 12 WEST, NMPM**

**Section 22: E/2 NW/4, SW/4 NW/4**

**TOWNSHIP 34 NORTH, RANGE 13 WEST, NMPM**

**Section 29: S/2 S/2**

**Section 32: N/2 NE/4**

**Section 33: W/2 NW/4**

**TAYLOR LEASE**

**TOWNSHIP 33 NORTH, RANGE 12 WEST, NMPM**

**Section 21: NW/4 SW/4**

**Section 33: N/2 NW/4**

**FLYNT LEASE**

**TOWNSHIP 33 NORTH, RANGE 12 WEST, NMPM**

**Section 8: E/2 SE/4**

**KENNEDY LEASE**

**TOWNSHIP 33 NORTH, RANGE 12 WEST, NMPM**

**Section 17: W/2 NE/4, E/2 NW/4**

**SAN JUAN FARMS LEASE**

**TOWNSHIP 33 NORTH, RANGE 12 WEST, NMPM**

**Section 7: W/2 SW/4**

**Section 8: ALL**

**Section 18: NW/4 NW/4**

**Section 17: ALL**

**SLADE LEASE**

**TOWNSHIP 33 NORTH, RANGE 12 WEST, NMPM**

**Section 3: S/2 NW/4**

**TAYLOR LEASE**

**TOWNSHIP 33 NORTH, RANGE 12 WEST, NMPM**

**Section 3: SW/4**

**Section 4: NE/4 SE/4**

**EVANS LEASE**

**TOWNSHIP 33 NORTH, RANGE 12 WEST, NMPM**

**Section 18: E/2 SW/4, SE/4**

**TEXAS**

**PEACH LEASE**

**All of the Southwest Quarter of section No. 39, Block No. 2 T&P RR CO Survey, Abstract No. 1395, Palo Pinto County, Texas**

**McGEE LEASE**

**192.5 acres, more or less in Young County, Texas and all being of the TE&L Company Survey No. 1498**

**STINSON LEASE**

**151.4 acres in Young County, Texas, being out of the J. Stinnett Survey, A-1753 and S. Holderness Survey, A-1804**

**WHITENBURG LEASE**

**Being all of the W. Byrd Survey, Abstract No. 1383, Young County, Texas, containing 160 acres, more or less**

**BRAZOS RIVER LEASE**

**Tract 10-A Brazos River, containing 40 acres, more or less, Young County, Texas**

**ROSSER A LEASE**

**The East 40 acres of the J. D. Rice Survey, Abstract No. 1630, lying in Young County, Texas**

**ROSSER LEASE**

**Being all of the R. W. Sneed Survey, Abstract No. 272, lying in Young County, Texas**



**BERRY LEASE**

Being all of the J. E. Morrison Survey, Abstract No. 1694, Young County, Texas

**TAYLOR LEASE**

The Benton Kramer Survey, Abstract No. 168, Young County, Texas

**CASEY LEASE**

Being all of the TE&L Survey No. 1494, Abstract No. 920, Young County, Texas

**V. H. HOUSTON LEASE**

All right, title, interest in, to and under that certain Conveyance, Assignment, Transfer and Bill of Sale, recorded in Book 617, Page 716, records of Wilson County, Texas, covering certain lands in that county.

**SNOGA UNIT**

All right, title, interest in, to and under those certain leases that collectively comprise the "Snoga Unit", lying in Wilson County, Texas.

**HUNTER-McDANIEL LEASE**

All right, title, interest in, to and under that certain lease located in the Luis Manchaca Survey No. A-18, known as the Hunter-McDaniel No. 3, lying in Wilson County, Texas.

**JASKINIA LEASE**

40 acres only out of a 153 acre tract lying in the George Davis Survey No. 12, Abstract No. 92, Wilson County, Texas.

**KOTZUR LEASE**

80 acres out of the 100<sup>1</sup>/<sub>6</sub> acre tract lying in the L. Manchaca Grant, A-18, in Wilson County, Texas.

**DUGI LEASE**

126 acres, more or less, out of the S. S. Saunders Survey No. 96, A-305, lying in Wilson County, Texas.

**OXFORD LEASE**

All right, title, interest in, to and under the 40 acre tract surrounding the Oxford No. 1 well located in Wilson County, Texas.

**OKLAHOMA**

**WASHINGTON & DERION LEASES**

**TOWNSHIP 23 NORTH, RANGE 8 EAST**

**Section 12: NW/4**

**TOWNSHIP 24 NORTH, RANGE 8 EAST**

**Section 33: SE/4**

**Osage County, Oklahoma**

**KANSAS**

**MOORE LEASE — MC-02**

**TOWNSHIP 12 SOUTH, RANGE 33 WEST**

**Section 4: N/2**

**Logan County, Kansas**

**LANG LEASE — MC-12**

**TOWNSHIP 15 SOUTH, RANGE 28 WEST**

**Section 26: NW/4**

**Gove County, Kansas**

**NELSON LEASE — MC-13**

**TOWNSHIP 13 SOUTH, RANGE 22 WEST**

**Section 35: SE/4**

**Trego County, Kansas**

**BRENNER LEASE — MC-14**

**TOWNSHIP 17 SOUTH, RANGE 22 WEST**

**Section 35: SE/4**

**Section 36: SW/4**

**TOWNSHIP 18 SOUTH, RANGE 22 WEST**

**Section 1: SW/4**

**Section 12: NW/4**

**Ness County, Kansas**

**ANDERSON LEASE — MC-17**

**TOWNSHIP 16 SOUTH, RANGE 27 WEST**

**Section 23: W/2 NW/4, SW/4**

**Lane County, Kansas**

**HINEMAN LEASE — MC-18**

**TOWNSHIP 19 SOUTH, RANGE 28 WEST**

**Section 18: SW/4**

**Section 19: W/2**

***Lane County, Kansas***

**LEIGHTON LEASE — MC-19**

**TOWNSHIP 14 SOUTH, RANGE 28 WEST**

**Section 25: SW/4**

**Section 36: SE/4**

***Gove County, Kansas***

**BUSSEN LEASE — MC-20**

**TOWNSHIP 11 SOUTH, RANGE 33 WEST**

**Section 19: S/2**

**TOWNSHIP 12 SOUTH, RANGE 33 WEST**

**Section 4: SE/4**

***Logan County, Kansas***

**PENKA LEASE — MC-21**

**TOWNSHIP 18 SOUTH, RANGE 30 WEST**

**Section 3: NE/4**

***Lane County, Kansas***

**PEMBER LEASE — MC-23**

**TOWNSHIP 18 SOUTH, RANGE 21 WEST**

**Section 6: W/2**

***Ness County, Kansas***

**TUTTLE LEASE — MC-24**

**TOWNSHIP 13 SOUTH, RANGE 26 WEST**

**Section 32: N/2, SW/4**

***Gove County, Kansas***

**DOOM LEASE — MC-25**

**TOWNSHIP 10 SOUTH, RANGE 26 WEST**

**Section 10: SW/4**

***Sheridan County, Kansas***

**DELANEY LEASE — MC-26**

**TOWNSHIP 11 SOUTH, RANGE 23 WEST**

**Section 9: W/2**

***Trego County, Kansas***

**WINDHOLTZ LEASE — MC-27**

**TOWNSHIP 12 SOUTH, RANGE 22 WEST**  
**Section 21: NW/4**

***Trego County, Kansas***

**WINDHOLTZ LEASE — MC-28**

**TOWNSHIP 11 SOUTH, RANGE 22 WEST**  
**Section 25: SW/4**

***Trego County, Kansas***

**BENTLEY LEASE — MC-30**

**TOWNSHIP 16 SOUTH, RANGE 28 WEST**  
**Section 1: N/2**

***Lane County, Kansas***

**MARTIN LEASE — MC-31**

**TOWNSHIP 10 SOUTH, RANGE 26 WEST**  
**Section 32: E/2**

***Sheridan County, Kansas***

**TUCKER LEASE — MC-32**

**TOWNSHIP 13 SOUTH, RANGE 28 WEST**  
**Section 6: E/2, SW/4**

***Gove County, Kansas***

**MENDENHALL LEASE — MC-33**

**TOWNSHIP 13 SOUTH, RANGE 28 WEST**  
**Section 7: E/2 SE/4**  
**Section 8: W/2 SW/4**  
**Section 17: NW/4**

***Gove County, Kansas***

**SOUTH LARRABEE PROSPECT**

**TOWNSHIP 15 SOUTH, RANGE 27 WEST**  
**Section 21: W/2, SE/4**  
**Section 28: S/2 NW/4, N/2 SW/4**  
**Section 29: S/2 SE/4, S/2 NE/4**

**PENNSYLVANIA**

**PONTIAC LEASE**

**All land covered by that certain tract known as the Pontiac Lease, located in the Cornplanter Township, Venango County, Pennsylvania.**

**REAL PROPERTY**  
**SANTA FE SPRINGS**

All that real property collectively known as the Industrial Tract, comprising seven acres, more or less, located in Santa Fe Springs, California.

**ATWOOD LOTS**

All right, title, interest in, to and under the land described as Lots 38, 40, 42 and 44 in Block "A" of Tract No. 144, Richfield Garden Plat, as shown on a map recorded in Book 12, Page 3 of Miscellaneous Maps, Records of Orange County, California.

*Orange County, California*

**LONG BEACH LOT**

Lot 6, Block C, Vista Del Mar Tract No. 2, Long Beach, California.

**RISSMAN LOT**

Lots 15, 16, 17, 18, 19 and 20 of Block 4 of the Windemere Tract, in the City of Signal Hill, county of Los Angeles, state of California, as per map recorded in book 11 page 24 of Maps, in the office of the county recorder of said county.

**MARVEL LOTS**

E/2 of the S/2 Lot 11, Block 9, Marvel 1st. addition, Lots 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12 and 13, Block 06, Marvel 2nd. addition, Lots 2, 4, 5 and 11 Block 05, Marvel 2nd. addition, La Plata County, Colorado.

All above properties are subject to all matters of record, any and all contracts, assignments, amendments or modifications currently in effect whether said contracts, assignments, amendments or modifications have been placed of record or not.

Acct. No.	Description	Dr	Cr
ASSETS			
11	Cash in Bank .....	\$ 91,245.23	
12	Petty Cash .....	1,042.90	
15	Clearing Accounts .....	2,173.55	
18	Oil/Gas Sales Rec Adj .....		\$143,118.34
20	Accounts Receivable — Trade .....	393,984.63	
20-99	Reserve for Doubtful Accts .....		120,936.25
21	Accounts Receivable — Other .....	159,705.48	
22	Crude Oil Inventory .....	87,537.40	
30	Prepaid Insurance .....	22,425.93	
31	Prepaid Property Taxes .....	5,011.57	
34	Deferred Expenses .....	100.00	
41	Service Station .....	55,000.00	
42	Bldg/Land Improvements .....	250,000.00	
	Gilday Land .....	1,500,000.00	
43	Real Estate:		
	Industrial Tract .....	2,000,000.00	
	Jalk 5 & 119 .....	50,000.00	
	Rissman Lots .....	120,000.00	
	Long Beach Lots .....	25,000.00	
	Colorado Lots — Marvel .....	5,000.00	
44	Auto & Equipment .....	720,350.00	
45	Yard Inventory — Except Taft .....	283,699.00	
47	Assets Under Construction .....	111,000.00	
48	Equipment — Radio Comm .....	20,000.00	
49	Equip — Red Mesa Gas Sys .....	50,000.00	
160	Lease Equipment — Wilkar .....	250,000.00	
	Oil & Gas Properties .....	3,618,846.00	
173	Easements .....	300.00	
174	Office Furn & Fixtures .....	5,000.00	
180	Deposits .....	17,283.00	
		<u>\$9,844,704.69</u>	<u>\$264,054.59</u>
	Total Assets .....	<u>\$9,580,650.10</u>	

Acct. No.	Description	Dr	Cr
<b>LIABILITIES &amp; EQUITY</b>			
202	Accounts Payable .....		\$ 148,755.46
206	Accts Pay — Unit Operator .....		135,500.81
207	Accrued Pension Plan .....		27,139.62
208	Accrued Payroll Taxes .....		3,838.55
209	Accrued Payroll W/H Taxes .....		4,796.78
210	Accrued Sales Tax .....	\$ 4.02	
211	Accrued Out-of-State Taxes .....	735.64	
212	Accrued Property Taxes .....	1,617.35	
213	Accrued Royalties .....		61,489.11
215	Accrued Payroll .....		16,267.72
216	Accrued Compensation Ins .....	2,133.90	
219	Deferred Income Taxes .....		190,981.00
220	Notes Payable L-T .....		20,092.97
220	Notes Payable S-T .....		25,083.00
		<u>4,490.91</u>	<u>633,865.02</u>
	Total Liabilities .....		<u>\$ 629,374.11</u>
<b>EQUITY</b>			
300	Capital Stock Outstanding .....	1,093,544.31	
	Appraisal Capital .....	4,313,178.46	
301	Retained Earnings .....	3,784,468.99	
	Year To Date Income .....	239,915.77	
		<u>\$ 239,915.77</u>	<u>\$9,191,191.76</u>
	Total Equity .....		<u>\$8,951,275.99</u>
	Total Liabilities & Equity .....		<u>\$9,580,650.10</u>

#### **EQUIPMENT, INVENTORY AND MATERIALS**

All ancillary equipment, inventory and materials situated in Kansas, Colorado and Santa Fe Springs, California as of December 31, 1985, shall be considered necessary convenient and appurtenant to the operations conducted at such locations and as such be transferred to SOC pursuant to the terms of this agreement unless in the opinion of the expert(s) engaged by the company to render an opinion as to the fairness of the transaction, as referred to in 5.2(d) to this agreement, an adjustment in such ancillary equipment, inventory and materials is necessary to achieve a proper division of such assets.

In considering the division of equipment, inventory and materials, the equipment, inventory and materials located at the company's yard in Bakersfield, California shall be considered even though it is not contemplated that any of such equipment, inventory and materials will be transferred to SOC unless required in the opinion and judgment of the expert(s) mentioned above.



### POWER OF ATTORNEY

Each of the undersigned hereby makes, constitutes and appoints Julian I. Hathaway or Richard F. Hathaway as his true and lawful attorney-in-fact to act in his name, place and stead, in any way in which the undersigned could act, granting full power and authority to sign, execute and deliver on behalf of the undersigned, in the undersigned's capacity as a shareholder of Pyramid Oil Company, amendments to that certain Agreement and Plan of Reorganization and Corporate Separation (the "Agreement") among Pyramid Oil Company and the Shareholders listed in Schedule 1 of the Agreement.

Pronouns of the masculine gender shall, if appropriate, be deemed pronouns of the feminine gender or shall be neuter.

This Power of Attorney shall expire on December 31, 1986.

Signature:

Date:

\_\_\_\_\_  
Julian I. Hathaway

\_\_\_\_\_  
Richard F. Hathaway and  
Nadine Hathaway, Trustee

\_\_\_\_\_  
Richard F. Hathaway II

\_\_\_\_\_  
Richard F. Hathaway III

\_\_\_\_\_  
Sherry Nadine Hathaway

\_\_\_\_\_  
William A. Hathaway

\_\_\_\_\_  
Remy A. Hathaway

\_\_\_\_\_  
Aaron Bowe Hathaway

\_\_\_\_\_  
Loline Hathaway Kundtz

Signature:

Date:

\_\_\_\_\_  
Patrick Kundtz

\_\_\_\_\_  
Roberta Lynn Kundtz

\_\_\_\_\_  
Francine Rippy

\_\_\_\_\_  
Sara L. Rippy

\_\_\_\_\_  
Jesse Louis Hathaway

\_\_\_\_\_  
Val George Ashton, Jr.

\_\_\_\_\_  
Mario Armando Rafael Diaz

\_\_\_\_\_  
Helen M. Hathaway

\_\_\_\_\_  
J. Terrill Hathaway

\_\_\_\_\_  
Kathryn L. Weber

\_\_\_\_\_  
Margaret J. Park

\_\_\_\_\_  
Calway Corp.

by: Julian I. Hathaway, President

Pursuant to the First Amendment of the Agreement dated March 3, 1986:

\_\_\_\_\_  
Jesse R. Hathaway

## EXHIBIT 1

### GENERAL RELEASE

In consideration for Pyramid Oil Company's entering into the Agreement and Plan of Reorganization and Corporate Separation (the "Agreement") dated as of December 31, 1985, the undersigned (hereinafter the "Releasors") do hereby forever release and discharge Pyramid Oil Company, a California corporation, and each of its past and present officers, directors, employees and agents (hereinafter collectively, the "Released Parties") from any claims, liabilities, causes of action and actions of whatsoever character, whether known or unknown, suspected by Releasors, which Releasors now own or hold or have at any time heretofore owned or held against the Released Parties, or any of them, including without limitation any claims, liabilities, causes of action or actions which Releasors or any of them may have relating to the Released Parties involvement in the business operations or management of Pyramid Oil Company. It is the Releasors' intention that the execution of this Release shall be effective as a full and final settlement of, and a bar to, each and every claim which they have against the Released Parties. The Releasors, and each of them, acknowledge that they are aware that if they hereafter discover facts different from or in addition to the facts which they now know or believe to be true, it is nevertheless their intention to settle finally any and all such claims which do now exist or hereafter may exist against the Released Parties on account of any conduct, act or omission committed or undertaken by or on the part of any of the Released Parties prior to the date hereof. This general Release shall be and shall remain effective notwithstanding the discovery of such different or additional facts. The Releasors hereby acknowledge that they have been informed by their attorneys with respect to and are familiar with and waive the provisions of Section 1542 of the California Civil Code which provides as follows:

"A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor."

Date:

RELEASORS:

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**EXHIBIT 2**  
**GENERAL RELEASE**

In consideration for Julian I. Hathaway and Richard F. Hathaway, entering into the Agreement and Plan of Reorganization and Corporate Separation (the "Agreement") dated as of December 31, 1985, the undersigned (hereinafter the "Releasor") does hereby forever release and discharge Julian I. Hathaway and Richard F. Hathaway and their employees and agents (hereinafter collectively, the "Released Parties") from any claims, liabilities, causes of action and actions of whatsoever character, whether known or unknown, suspected by Releasor, which Releasor now owns or holds or has any time heretofore owned or held against the Released Parties, or any of them, including without limitation any claims, liabilities, causes of action or actions which Releasor may have relating to the Released Parties involvement in the business operations or management of Pyramid Oil Company. The obligations of the Released Parties under the Agreement and Plan of Reorganization and Corporate Separation (the "Agreement") dated as of December 31, 1985 are excluded from this Release. It is the Releasor's intention that the execution of this Release shall be effective as a full and final settlement of, and a bar to, each and every claim which it has against the Released Parties. The Releasor acknowledges that it is aware that if it hereafter discovers facts different from or in addition to the facts which it now knows or believes to be true, it is nevertheless its intention to settle finally any and all such claims which do now exist or hereafter may exist against the Released Parties on account of any conduct, act or omission committed or undertaken by or on the part of any of the Released Parties prior to the date hereof. This general Release shall be and shall remain effective notwithstanding the discovery of such different or additional facts. The Releasor hereby acknowledges that it has been informed by their attorneys with respect to and is familiar with and waives the provisions of Section 1542 of the California Civil Code which provides as follows:

"A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor."

Date:

RELEASOR:

PYRAMID OIL COMPANY

By \_\_\_\_\_

Leroy W. Wirz, President

**EXHIBIT 3**  
**GENERAL RELEASE**

In consideration for Julian I. Hathaway and Richard F. Hathaway, entering into the Agreement and Plan of Reorganization and Corporate Separation (the "Agreement") dated as of December 31, 1985, the undersigned (hereinafter the "Releasors") do hereby forever release and discharge Julian I. Hathaway and Richard F. Hathaway, and their employees and agents (hereinafter collectively, the "Released Parties") from any claims, liabilities, causes of action and actions of whatsoever character, whether known or unknown, suspected by Releasors, which Releasors now own or hold or has any time heretofore owned or held against the Released Parties, or any of them, including without limitation any claims, liabilities, causes of action or actions which Releasors may have relating to the Released Parties involvement in the business operations or management of Pyramid Oil Company. The obligations of the Released Parties under the Agreement and Plan of Reorganization and Corporate Separation (the "Agreement") dated as of December 31, 1985 are excluded from this Release. It is the Releasors' intention that the execution of this Release shall be effective as a full and final settlement of, and a bar to, each and every claim which it has against the Released Parties. The Releasors acknowledge that they are aware that if they hereafter discover facts different from or in addition to the facts which they now know or believe to be true, it is nevertheless their intention to settle finally any and all such claims which do now exist or hereafter may exist against the Released Parties on account of any conduct, act or omission committed or undertaken by or on the part of any of the Released Parties prior to the date hereof. This general Release shall be and shall remain effective notwithstanding the discovery of such different or additional facts. The Releasors hereby acknowledge that they have been informed by their attorneys with respect to and are familiar with and waive the provisions of Section 1542 of the California Civil Code which provides as follows:

"A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor."

Date:

RELEASORS:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**EXHIBIT 4**

**GENERAL RELEASE**

In consideration for J. Ben Hathaway and John H. Alexander entering into the Agreement and Plan of Reorganization and Corporate Separation (the "Agreement") dated as of December 31, 1985, the undersigned (hereinafter the "Releasors") do hereby forever release and discharge J. Ben Hathaway and John H. Alexander (hereinafter collectively, the "Released Parties") from any claims, liabilities, causes of action and actions of whatsoever character, whether known or unknown, suspected by Releasors, which Releasors now own or hold or has any time heretofore owned or held against the Released Parties, or any of them, including without limitation any claims, liabilities, causes of action or actions which Releasors may have relating to the Released Parties involvement in the business operations or management of Pyramid Oil Company. The obligations of the Released Parties under the Agreement dated as of December 31, 1985, are excluded from this Release. It is the Releasors' intention that the execution of this Release shall be effective as a full and final settlement of, and a bar to, each and every claim which they have against the Released Parties. The Releasors acknowledge that they are aware that if they hereafter discover facts different from or in addition to the facts which they now know or believe to be true, it is nevertheless their intention to settle finally any and all such claims which do now exist or hereafter may exist against the Released Parties on account of any conduct, act or omission committed or undertaken by or on the part of any of the Released Parties prior to the date hereof. This general Release shall be and shall remain effective notwithstanding the discovery of such different or additional facts. The Releasors hereby acknowledge that they have been informed by their attorneys with respect to and are familiar with and waive the provisions of Section 1542 of the California Civil Code which provides as follows:

"A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor."

Date:

RELEASORS:

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THIS FIRST AMENDMENT ("Amendment"), dated as of March 3, 1986, to that certain Agreement and Plan of Reorganization and Corporate Separation (the "Agreement"), dated as of December 31, 1985, is among Pyramid Oil Company, a California corporation (the "Company") and the Shareholders listed in Schedule 1 (the "Shareholders") of the Agreement. Pursuant to Article 8.1 of the Agreement, the Company and the Shareholders hereby amend the Agreement as follows:

Article 1.2, Closing, the fourth line shall be changed from "Los Angeles, California on March 31, 1986 at 10:00 A.M." to "Los Angeles, California on September 30, 1986 at 10:00 A.M."

Article 2.6, Financial Statements, the third line shall be changed from "financial statements dated September 30, 1985, as submitted" to "financial statements dated December 31, 1985, as submitted."

Article 5.4, Expiration Date, the third line shall be changed from "have not been completed by March 31, 1986, which date" to "have not been completed by September 30, 1986, which date."

Schedule 1, the "Shareholders," the name of Jesse R. Hathaway, an individual, shall be added to Schedule 1 in the amount of 9,250 shares.

Each of the parties has caused this Amendment to be executed on its behalf by its duly authorized representatives, all as of the day and year first above written.

PYRAMID OIL COMPANY

By \_\_\_\_\_

Le Roy W. Wirz, President

For the SHAREHOLDERS

By \_\_\_\_\_  
\_\_\_\_\_

## Business Entity Detail

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Data is updated weekly and is current as of Friday, July 08, 2011. It is not a complete or certified record of the entity.

Entity Name:	HATHAWAY COMPANY
Entity Number:	C1275020
Date Filed:	05/08/1985
Status:	DISSOLVED
Jurisdiction:	CALIFORNIA
Entity Address:	PO BOX 3404
Entity City, State, Zip:	SANTA FE SPRINGS CA 90670
Agent for Service of Process:	JULIAN T HATHAWAY
Agent Address:	11901 EAST FLORENCE AVE
Agent City, State, Zip:	SANTA FE SPRINGS CA 90670

\* Indicates the information is not contained in the California Secretary of State's database.

- If the status of the corporation is "Surrender," the agent for service of process is automatically revoked. Please refer to California Corporations Code section 2114 for information relating to service upon corporations that have surrendered.
- For information on checking or reserving a name, refer to Name Availability.
- For information on ordering certificates, copies of documents and/or status reports or to request a more extensive search, refer to Information Requests.
- For help with searching an entity name, refer to Search Tips.
- For descriptions of the various fields and status types, refer to Field Descriptions and Status Definitions.

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## Business Entity Detail

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Data is updated weekly and is current as of Friday, July 08, 2011. It is not a complete or certified record of the entity.

Entity Name:	HATHAWAY COMPANY
Entity Number:	C0151196
Date Filed:	10/07/1932
Status:	MERGED OUT
Jurisdiction:	CALIFORNIA
Entity Address:	*
Entity City, State, Zip:	*
Agent for Service of Process:	*
Agent Address:	*
Agent City, State, Zip:	*

\* Indicates the information is not contained in the California Secretary of State's database.

- If the status of the corporation is "Surrender," the agent for service of process is automatically revoked. Please refer to California Corporations Code section 2114 for information relating to service upon corporations that have surrendered.
- For information on checking or reserving a name, refer to Name Availability.
- For information on ordering certificates, copies of documents and/or status reports or to request a more extensive search, refer to Information Requests.
- For help with searching an entity name, refer to Search Tips.
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## Business Entity Detail

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Data is updated weekly and is current as of Friday, July 08, 2011. It is not a complete or certified record of the entity.

Entity Name:	HATHAWAY COMPANY
Entity Number:	C0631066
Date Filed:	08/06/1971
Status:	SUSPENDED
Jurisdiction:	CALIFORNIA
Entity Address:	BOX 2124
Entity City, State, Zip:	SANTA FE SPRINGS CA 90670
Agent for Service of Process:	*
Agent Address:	*
Agent City, State, Zip:	*

\* Indicates the information is not contained in the California Secretary of State's database.

- If the status of the corporation is "Surrender," the agent for service of process is automatically revoked. Please refer to California Corporations Code section 2114 for information relating to service upon corporations that have surrendered.
- For information on checking or reserving a name, refer to Name Availability.
- For information on ordering certificates, copies of documents and/or status reports or to request a more extensive search, refer to Information Requests.
- For help with searching an entity name, refer to Search Tips.
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